MBA 703: ECONOMIC ENVIRONMENT OF THE FIRM
SPRING 2011

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This course will be taught by Stuart Allen (January 13-February 24) [Macroeconomics] and Steve Layson (March 17-April 28) [Microeconomics].

CATALOG DESCRIPTION
Economic theory to analyze markets, competitive and noncompetitive firm behavior, market structure, government regulation, and current and historical fiscal, monetary and exchange rate policy changes within the global financial environment.

TEXTBOOK
Modern Principles of Economics by Tyler Cowen and Alex Tabarrok, ISBN 1-4292-0227-0

PURPOSE OF MACROECONOMICS SECTION
The major objective of this content is to develop your economic understanding and analytical ability to assess the current macroeconomic environment and government policies in the United States and other countries (e.g. fiscal, monetary, and exchange rate policy). We will utilize aggregated markets such as the output, labor, credit/financial, reserve, money and foreign exchange markets to analyze the effect of changes in monetary, fiscal and exchange policy in the context of the global economy. The lectures, discussions, readings and assignments will help to develop your ability to analyze the current economic environment, evaluate current government policies, and assess the risk facing businesses and households. Historical case studies will be employed as an important teaching tool to explain the current global economic environment.

REFERENCES TO ECONOMIC ANALYSIS AND DATA
Government agencies such as CBO.gov, BEA.gov, and BLS.gov
The Tax Foundation provides tax information and analysis.
Political economic analysis:  Paul Krugman and Brad DeLong (Goggle)

REQUIREMENTS: GRADES in MACROECONOMICS
Test 1 – 20% – Class 3 – January 27
Test 2 – 30% - Class 5 – February 10
Macro Exam – 50% – Class 7 – February 24

No make-up tests! The weight of the missed test (assuming a valid excuse) will be added to the Macro exam. Otherwise the grade is zero. Incompletes are not an option. No extra credit is given. The grading scale is:
A/A-: 90 - 100  B+/B/B-: 80 - 89  C+/C: 70 - 79  F: Less than 70
Your final grade will be the average of your macroeconomic and microeconomic section of the course.

FACULTY STUDENT GUIDELINES
Can be found at http://www.uncg.edu/bae/faculty_student_guidelines.pdf

ATTENDANCE: MACROECONOMIC SECTION
Attendance is necessary. Missing class is likely to may be hazardous to your performance. If have to miss class, you are responsible for the class material. Class lectures may be recorded.

BAD WEATHER POLICY
The cancellation of class due to weather or other causes will result in reallocating time in the class over the classes remaining in the macroeconomics section.
LEARNING OBJECTIVES FOR MACROECONOMICS:
Students should be able:

1. To effectively discuss the current economic environment with regard to understanding the measurement of macroeconomic data such as nominal and real values such as GDP and interest rates; economic growth rates, price indexes, deflation and inflation; unemployment and employment; the federal budget deficit, and the national debt, a country’s current and capital accounts as part of the balance of payments; and the status of a country as a debtor or creditor nation.

2. To discuss the sources of economic growth for developed and developing countries with regard to public policy (especially when it comes to savings, investment and taxation) that could increase the rate of potential (long-term) real GDP growth.

3. To analyze the effect of short-run fluctuations in the growth rate of real GDP and prices from supply (demand) shocks and recommend policy changes to dampen the negative impact form the shock.

4. To describe how changes in exchange rate should theoretically dampen trade disequilibrium and why financial flows can disrupt the equilibration mechanism and cause the trade imbalance to worsen.

5. To analyze the effect of changes in expansionary and contractionary monetary policy on economic activity with regard to employment, real GDP and inflation.

6. To discuss the short- and long-term effects on interest rates, the inflation rate and economic activity from over expansionary monetary policy in the late 1970s and Volcker’s fight against inflation from 1979-1982 and the critical lessons that were learned from this boom and bust cycle.

7. To analyze monetary policy according to Taylor’s rule with reference to the interest rate targeting of the 1970s, the 1990s and the 2000s and how these episodes contributed to a boom and bust cycle.

8. To analyze monetary policy under Greenspan and Bernanke according to Taylor’s rule and with regard to boom and bust cycles with particular attention to the housing bubble.

9. To analyze the effects on economy activity and economic growth from fiscal policy and deficit spending with specific reference to the Reagan budget deficits.

10. To analyze the effect of the 1980s budget deficits and monetary policy on real interest rates, the current account deficit, the value of the dollar and the status of the US as a creditor or debtor nation.

11. To analyze the adjustment process of the Bretton Woods international financial system and offer an explanation of why BW died before its thirtieth birthday.

12. To analyze the role of fixed exchange rates in the creation of the boom and bust cycle with regard to the Asian currency crisis in 1997/98.

13. To analyze the current exchange rate policy of China and its attempt to control inflation.

14. To analyze the possible outcome of a country defaulting on its debt and to take an advocacy role regarding whether to default or not.
MBA 703
MACROECONOMIC SECTION
OUTLINE

Microeconomic Introduction and Review: Prior to Class I: Read Chapters 1, 2, 3, 6 and 7
Chapter 2 and 3: Supply and Demand: p. 42 Terminology, p.43 Graphs
Chapter 6: Price Ceilings; pp. 99-106 OPEC and Wage and Price Controls
Chapter 7: Price Floors and Subsidies: Minimum Wage

UNIT A: Measurement of GDP, Unemployment and Inflation

Chapter 20: GDP of the Economic Exchanges Among the Participants in the Major Markets
Chapter 24: Unemployment Provides the Conceptual Organization of the Global Macroeconomic System of
Chapter 25: Inflation, pp. 537-543
PLUS
Chapter 23: The Financial (Credit) Markets

Chapter 20: GDP and the Measurement of Progress

I. GDP and Unemployment Ch. 20
   A. GDP: Nominal vs. Real, (Output Market)
   B. Levels vs. Growth Rates
   C. Nominal vs. Real
   D. GDP Per Capita (Tie in with Economic Growth Ch. 21 and 22)
   E. Cyclical Changes in Real GDP (Tie in with Cyclical Unemployment Ch. 24)
   F. Splitting GDP: Expenditure vs. Income Approach
   G. International Trade and Balance of Payments (Ch. 32, pp. 701-711), (Forex Market)
   H. Measurement Problems

II. Unemployment, Employment and the Labor Force (Labor Market) Ch. 24
   A. Unemployment Rate and Job Creation
   B. Frictional Unemployment and Duration
   C. Structural Unemployment and Regulation and Other Factors
   D. Cyclical Unemployment, Natural Rate of Unemployment and Potential Real GDP
   E. Okun’s Law: Relationship between Change in the U rate and Real GDP Growth
   F. Recession, Growth Recession and Recovery: Relationship of U Rate and Output Gap
   F. LFP Rates and Incentives

III. Inflation Ch. 25, pp. 537-543
   A. Defining Inflation and Deflation
   B. Measuring Inflation
   C. Hyperinflations
IV. Savings, Investment and the Financial System
   A. Demand by Borrowers
   B. Supply by Lenders/Savers
   C. Loanable Funds = Credit Market
   D. Role of Financial Intermediaries
   E. Real vs. Nominal Interest Rates

V. The Circular Flow Model
   A. Interaction among the Three Sectors and Domestic Markets
   B. International Sector
   C. Trace through the Impact of a Recession
   D. Implementation of Expansionary Fiscal Policy

TEST 1: Start of Class 3

Unit B: Long-run Economic Growth

VI. Economic Growth and the Wealth of Nations
   A. Key Facts: Wealth Miracles and Wealth Disasters
   B. Rule of 70/72
   C. Wealth of Nations: Resources, Physical Capital, Human Capital, Technology
   D. Institution and Incentives

VII. Growth Theory
   A. Solow Growth Model
   B. Simple Model: Real GDP = f(K)
   C. The Savings and Investment Decision and the PPF (Production Possibilities Frontier)
   D. Ideas and Long-run Economic Growth
   E. Economics of Ideas
   F. Convergence and Growth at the Cutting Edge
   G. Reaganomics and Supply-side Economics

   $S \rightarrow K \rightarrow K/L \text{ Ratio} \rightarrow \text{Labor Productivity} \rightarrow \text{Real Wages} \rightarrow \text{Standard of Living}$

VIII. Output Market Revisited
   A. Supply Side and Aggregate Supply
   B. Demand Side and Aggregate Demand
   C. Static vs. Dynamic Output Market
   D. Supply Shock
   E. Demand Shock or Financial Freeze: The Bank Panic of 2008

Unit C: Monetary Policy
IX. Money Supply
   A. Measuring Inflation
   B. Quantity Theory of Money
   C. Fisher Effect
   D. Money Supplies

X. The Federal Reserve and Central Banking
   A. Fractional Reserve Banking and the Money Supply Process
   B. The Money Multiplier
   C. Three Instruments of Monetary Policy
   D. Great Depression: Historical Case

TEST 2: Start of Class 5

XI. Monetary Policy Changes: Historical Cases
   A. Carter Inflation and Targeting Interest Rates: Plus the Savings & Loan Crisis I
   B. The Volcker Experiment and the Third World Debt Crisis
   C. The New Economy: Boom - Last Half of 1990s
   D. The Greenspan Housing Boom With Contributions by a Multitude of Hosts

Unit D: International Financial System

XII. International Financial System
   A. Britain’s Return to the Gold Standard in 1925 and Devaluation in 1931
   B. The Bretton Woods Fixed Exchange Rate (Adjustable Peg) System
   C. The 1997 and 1998 Asian Currency Crisis
   D. China’s Managed Exchange Rate and Inflationary Pressure

Unit E: Historical Lessons and Future Crises

XIII. Fiscal Policy
   A. Taxes
   B. Spending
   C. Budget Deficits and the National Debt
   D. European Union and Solvency of the Weaker Nations

XIV. Booms and Busts: Imbalances and Tensions
   A. The Chinese and the U.S. Trade Imbalance
   B. The U.S. Debt Crisis
   C. Public Choice and Economic Reform
   D. Entitlement Growth vs. Taxation

Final Exam: February 24

MBA 703: MICROECONOMICS SECTION
OBJECTIVES: MICROECONOMICS
The major objective of this section of the course is to explain how markets generate cooperation from people across the world, how prices act as signals and coordinate appropriate responses to changes in economic conditions.

STUDENT LEARNING OUTCOMES
At the end of the section you should be able to:
1. Explain price and output changes in markets using supply and demand.
2. Predict price and output changes using the price and income elasticity of demand.
3. Find the profit maximizing level of various firm activities using marginal analysis.
4. Demonstrate how competitive industries respond in the short run and long run to demand and supply shocks.
5. Demonstrate how an unregulated monopolist sets price and output.
6. Discuss the four different market structures that firms operate in.

ATTENDANCE POLICY
Students are expected to attend and be an active participant in all classes. If a student misses a class they are expected to notify their instructor as soon as possible to turn in their homework and to get any new homework assignments or handouts distributed in class.

TEACHING METHODS AND ASSIGNMENTS TO ACHIEVE LEARNING OUTCOMES
Students should first read the assigned chapters in the textbook before the class lectures. The lectures will reinforce and extend the textbook discussion. Several handouts will be discussed in class to further cover student learning outcomes. The students are also encouraged to do the textbook exercises at the end of each chapter to help prepare for the midterm and final exams. For the first few weeks there will be short quizzes given that will be graded but not counted toward your final grade. The purpose of the quizzes is to give some early feedback on how well you are learning the material.

1) Homework assignments will be handed out each week and are due the following week at the beginning of class. Late homework assignments are not accepted. The homework assignments will cumulatively count for 20% of your grade for the Microeconomics section of the course. The homework assignments will cover all six learning outcomes.
2) There will be one in class midterm covering chapters 1-7 that will count for 30% of your final grade. The midterm will cover student learning outcomes 1-3.
3) The final exam (April 28, the last class) will cover textbook chapters 8-15 and will count for 30% of your final grade. The final exam will cover student learning outcomes 3-6.

EVALUATION AND GRADING
The following grading scale will be used for all homework assignments, the midterm exam and the final exam for the Microeconomics section of MBA 703.

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<thead>
<tr>
<th>Grade</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>A</td>
<td>93-100%</td>
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<tr>
<td>A-</td>
<td>90-92.9%</td>
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<tr>
<td>B+</td>
<td>87-89.9%</td>
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<tr>
<td>B</td>
<td>83-86.9%</td>
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<tr>
<td>B-</td>
<td>80-82.9%</td>
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<td>C+</td>
<td>77-79.9%</td>
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<tr>
<td>C</td>
<td>70-76.9%</td>
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<tr>
<td>F</td>
<td>0-69.9%</td>
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The final grade will be based on the equal weighting of the Macro and Micro sections.

**TOPICAL OUTLINE/CALENDAR**

First week  First Homework Hand Out  
Lecture: Introduction, Demand and Supply, Chapters 1 & 2.

Second week  Quiz 1, First Homework Due; Second Homework Hand Out  

Third week  Quiz 2, Second Homework Due; Third Homework Hand Out  

Fourth week  Midterm  
Third Homework Due; Fourth Homework Hand Out  

Fifth week  Fourth Homework Due; Fifth Homework Hand Out  
Lecture: Profits, Competition & Monopoly, Chapters 10 & 11.

Sixth week  Fifth Homework Due.  

Seventh week  Final Exam

**ACADEMIC HONOR CODE**

Students are responsible for familiarizing themselves with the UNCG policy on issues such as cheating, plagiarism, misuse of academic resources, falsification and facilitation of dishonest conduct. Procedures and penalties related to these and other violations of the Policy are found at: [http://academicintegrity.uncg.edu/](http://academicintegrity.uncg.edu/). Any violation of the Honor Policy may result failure of the assignment and subsequently the entire course.