MBA 703: ECONOMIC ENVIRONMENT OF THE FIRM
SPRING 2015

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458 Bryan Building - Economics Department Office hours: Before or after class on Monday
or by appointment

CATALOG DESCRIPTION
Economic analysis of markets and government intervention that addresses the sustainability of fiscal,
monetary and exchange rate policy and their short- and long-run impact on the global environment.

REQUIRED READINGS
MBA Macroeconomic Readings. Order from the bookstore

PURPOSE
The course will develop your understanding of the linkages among macroeconomic markets and your
ability to evaluate the effectiveness and sustainability of macroeconomic policies (e.g. fiscal, monetary, and
exchange rate). The course will utilize aggregated markets such as the output, labor, credit/loanable funds,
reserve, money and foreign exchange markets to analyze the effect of changes in monetary, fiscal and
exchange policy in the context of the domestic and global economy. The lectures, discussions, readings
and assignments will help to develop your ability to analyze the current economic environment and
government policies, and to 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.

PREREQUISITES
MBA 715: Integrative Business. MBA 703 is a third semester course in the four semester program.

SOURCES OF ECONOMIC DATA and ANALYSIS
See government agencies such as CBO.gov, BEA.gov, Federalreserve.gov, BLS.gov and private sources
such as The Tax Foundation (taxfoundation.com). For domestic and international data go to the St. Louis
Federal Reserve Bank (FRED) database. For unique analysis related to economic growth and development
listen to TED Talks by Hans Rosling.

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

ATTENDANCE
Attendance and class participation is expected. If you miss class, you are responsible for the class material.
You may record the class. There is no class on Martin Luther King Day (Jan 19) or spring break (Mar 9).

BAD WEATHER POLICY
The cancellation of class due to weather or other event may be made up by extending class time or having a
make-up class period. If a test is cancelled, then be prepared to take the test the very next class period.

ACADEMIC HONOR CODE
Students are responsible for being familiar with the UNCG policy on cheating, plagiarism, misuse of academic
resources, falsification and facilitation of dishonest conduct. Procedures and penalties related to these and other
policy violations are found at: http://www.uncg.edu/handbook/academic-integrity-policy/. Any violation of the
Honor Policy may result in a failure for the assignment and subsequently the course.
LEARNING OBJECTIVES FOR MBA 703

Students should be able:

1. To use the tools of supply and demand to analyze the effect of changes in the micro and macroeconomic markets.
2. To analyze the intended and unintended outcomes in markets from government intervention.
3. To discuss the macroeconomic environment with regard to nominal and real GDP, nominal and real interest rates, economic growth rates, price indexes, deflation and inflation; unemployment and employment; the federal budget deficit and the national debt; the current and capital accounts and its status as a debtor or creditor nation.
4. To analyze labor market issues and trends with regard to employment and unemployment.
5. To identify the sources of economic growth and public policy (savings, investment and taxes) that can increase or decrease the rate of long-term real GDP growth.
6. To analyze the effect of short-run fluctuations in the growth rate of real GDP and prices from supply (demand) shocks and to recommend appropriate policy changes.
7. To describe how exchange rates changes correct trade disequilibrium and why financial flows can disrupt the equilibration mechanism and cause trade imbalances to worsen.
8. To analyze the effect of changes in expansionary and contractionary monetary policy on economic activity with regard to employment, real GDP and inflation.
9. To discuss the short- and long-term effects on interest rates, inflation rates, and output growth from overly expansionary monetary policy in the late 1970s and Volcker’s fight against inflation from 1979-1982.
10. To analyze monetary policy according to Taylor’s rule with reference to the interest rate targeting of the 1970s, 1990s and 2000s and the resulting boom and bust cycles.
11. To analyze the effects on economic activity and economic growth from fiscal policy and deficit spending with reference to the non-sustainability of current policy.
12. 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 US as creditor or debtor nations.
13. To analyze the adjustment process of the Bretton Woods international financial system and to use the analysis to explain why fixed exchange rates are non-sustainable.
14. To analyze the role of fixed exchange rates in the creation of the boom and bust cycle (1990-97) with regard to the Asian currency crisis in 1997/98.
15. To analyze the current exchange rate policy and domestic monetary policy of China and Japan and address its sustainability.

GRADES

There will be two mid-terms (30% each) and a final exam (40%). Tentative dates are February 23 and April 6. The final exam (40%) begins at 6:30 pm on Monday, May 8. No make-up tests are given. The weight of a missed test (assuming a valid excuse) will be added to the final exam. Otherwise the missed test grade is zero. Incompletes are not an option. The grading scale is:

A/A-: 90 - 100  B+/B/B-: 80 – 89  C+/C: 70 - 79  F: Less than 70

EXTRA CREDIT

No extra credit is provided at the end of the course. Rather there are opportunities to bolster your mid-term grades with extra credit assignments during the semester. Zero to five points (per assignment) can be earned and added to your mid-term test grades. Assignments should be typed, internet sources should be footnoted, and your written work should be in your own words and not lifted from web sites. You may want to do Extra Credit #2 over the winter break.
COURSE OUTLINE: MBA 703 Springs 2015

Class 1: Chapter 1: The Economic Way of Thinking

Class 1: Chapter 4: Supply and Demand
- Ch.1 Demand: Fig 4.1 and 4.2 CHECKPOINT 4.1 DO 1,2,3 and IN THE NEWS
- Ch.4 Supply: Fig 4.3 and 4.4 CHECKPOINT 4.2 DO 1,2,3 and IN THE NEWS
- Ch 4.3 Market Equilibrium and the Automatic Adjustment of Prices (Factors that Shift Supply and Demand Schedules) Fig 4.7 and 4.8
- Double Shifts of Supply and Demand: Fig 4.9 and 4.10
CHECKPOINT 4.3 DO 1,2,3,4 and IN THE NEWS
- Ch 4.4 Price Rigidities: CHECKPOINT 4.4 DO 1,2,3 and IN THE NEWS
  - Price Floors e.g. Minimum Wage: Fig 4.11 and 4.12
  - Connect with Efficiency Wages p.151 and p. 208
  - Price Ceilings Fig 4.13 and 4.14
  - Rigid or Sticky Wages (Prices), p. 107

Class 2: Chapter 2: The Global Economy
  - Read Sections 2.1 and 2.2
  - Ch 2.3 Circular Flow Model of Economic Activity: Figure 2.3. Add in Government: Figure 2.4.
  - Ch 2.4 Add in Global Economy

  Class Exercise: How would you represent the economic exchange that occurs in the labor and the credit market? How would you fit these markets into the circular flow model?

  Insert: Ch 19.1 Balance of Payments Accounting
  - Current Account
  - Capital Account

Class 2: Chapter 3: The Economic Problem
  - Ch 3.1 to 3.3: The Production Possibility Frontier: Basic Principle of Growth

Classes 1-4: MBA Macro Reading, Chapter 1 Macroeconomics: An Introduction: A good survey of the key topics for Classes 1 through 4.

Class 3: Chapter 5: GDP: A Measure of Total Production and Income
  - Ch 5.1 GDP, Income, and Expenditures
  - Ch 5.2 Measuring US Real GDP: Real GDP: CHECKPOINT 1,2

  Class Exercise: Calculating nominal real GDP, actual GDP and the price level
  Calculate the growth rate of output and of the price level.

  Class Exercise: Draw a time series diagram of nominal and real GDP for the 1990-2014 period.
  Assume that there were three recessions in 1991, 2001, 2007/XII – 2008/IV

  Ch 5.3 The Business Cycle: Potential and Actual Real GDP

Class 3: Class Exercise: Calculate Potential GDP and the Output Gap and Graph Using a Time Series Diagram of Actual and Potential Real GDP.
Class 4: Chapter 6: Unemployment
   Ch 6.1 Labor Market Indicators
   **CHECKPOINT 6.1 1,2 and IN THE NEWS**

   Ch 6.2 Labor Markets Trends and Fluctuations
   Unemployment Rate, LFPR, and Alternative Labor Market Measures
   **CHECKPOINT 6.2 1,2 and IN THE NEWS**

   Ch 6.3 Unemployment and Full Employment
   **CHECKPOINT 6.3 1,2 and IN THE NEWS**
   Types (Descriptions of) Unemployment, Full Employment, and the Output Gap

   Insert Ch 8.2 Natural Rate of Unemployment and Potential GDP

Class 5: Time to Complete the Topics of Classes 1 – 4. If necessary we will start Chapter 7.

Test 1 February 23 – Class 6: Tentative date

**EXTRA CREDIT 1:** Provide an analysis of the current labor market conditions and trends in your home country. Your analysis should include a number of different unemployment and employment measures. If your country does not have enough data to make the assignment interesting, use the US as the default. Data that could be of interest is the labor force participation rate, employment to population rate, number of multiple jobholders, unemployment duration, job loser and leavers, entrant and reentrants to the labor force, the creation and quality of jobs, average wage rates etc. Due Class 3

Class 7: Ch 7 The CPI and the Cost of Living
   Ch 7.1 The CPI
   Ch 7.2 The CPI and Other Price Level Measures
   Ch 7.3 Nominal and Real Values: The Labor Market in Ch 8 uses real wages
   Ch 7.4 Real vs Nominal Interest Rates: The Loanable Funds Market (Ch 10) uses real interest rates

   **Class Exercise:** Inflation Adjusting Using the CPI

Class 7: Ch 9 Economic Growth
   Ch 9.1 Growth Rates and the Rule of 70
   Ch 9.2 Labor Productivity Growth
      Capital Accumulation and Diminishing Returns
      Expansion of Human Capital and the Discovery of New Technology
   Ch 9.3 Growth Theories
   Ch 9.4 Achieving Faster Growth: Preconditions and Policies


**EXTRA CREDIT 2 - Due Class 7. See assignment following this outline**

Chapter 13: Aggregate Demand and Aggregate Supply
   Ch 13.1 Aggregate Supply
   Ch 13.2 Aggregate Demand
   Ch 13.3 Explaining Business Cycles: Three Types of Macro Equilibrium (troughs and peaks)
Class 8: Ch 10  Finance, Savings and Investment
  10.1  Financial Institutions and Markets
  10.2  The Loanable Funds Market
  10.3  Government in the Loanable Funds Market
        Crowding Out I – The Domestic Economy
        Crowding Out II – The Trade Sector

Class 8:  Chapter 11: The Monetary System
  11.1  What is Money?
  11.2  The Banking System

The role of the Fed and the fractional reserve banking system in the creation and destruction of money through the open market purchase or sale of government bonds is demonstrated. The distinction between the monetary base and the money supply is important. The money multiplier is introduced as the linkage between the base and the money supply. The influence that the public and the banking system can have on the multiplier is discussed through the history of the Great Depression.

Class 9: 11.3  The Federal Reserve System
  11.4  Regulating the Quantity of Money

MBA Macro Readings Chapter 9
  Section 9.2 The Money Creation Process
  Section 9.3 The Fed’s Three Policy Tools

EXTRA CREDIT 3: Google the Causes of the Great Depression. Summarize from several web sites the various causes of the Great Depression. Include in your discussion the Monetarist and the Keynesian view of the main cause(s) of the Great Depression. Due Class 7.

MBA Macro Readings Chapter 10
  Section 10.3 Increasing the Money Supply
  Section 10.4 The Three Interest Rate Effects
  Section 10.5 Contracting the Money Supply (Fighting Inflation)

Chapter 12: Money, Interest and Inflation
  12.1  Money and the Interest Rate
  12.2  Money, the Price Level and Inflation
  12.3  The Cost of Inflation

Class 10: Chapter 17: Monetary Policy
  17.1 How the Fed Conducts Monetary Policy:
  17.2 Monetary Policy Transmission: Summary pages: 434-437
    17.21  The Fed Fights Recession (pp. 434-435)
    17.22  The Fed Fights Inflation (pp. 436-437)
  The Loanable Funds and the Credit Market – the Role of Inflationary Expectations
  Ch 17.3 Alternative Monetary Policy Strategies – The Role of the Fed.

Test 2: Class 11 Tentative Date – April 6
Class 12/13: Bubbles and Taylor’s Rule and the Financial Meltdown
The Causes of the Financial Meltdown
Review Monetary Policy Episodes and Include Taylor’s Rule

EXTRA CREDIT 4: What Factors Caused the Housing Bubble of the 2000s? Due Class 10. What do you think is the most compelling reason for the financial crisis?


Deficit Spending
Crowding Out I and II: Introduced in the textbook in Chapter 10.

Class Exercise: When Has the US Had Very Large Twin Deficits?

Reaganomics and Supply-side Economics

Class 12: The Keynesian Influence
Ch 16.1 Federal Budget: Deficits and the Time Bomb
Ch 16.2 Fiscal Stimulus
Ch 16.3 The Supply Side - Potential GDP - and Growth
Ch 16.4 Fiscal Problems

EXTRA CREDIT 5: What is Reaganomics (Supply-side Economics)? What Is Your Personal Evaluation of Reaganomics? Due Class 12

Libre 8 “How Would Modern Macroeconomic Thought Respond to the Recent Economic Crisis?”

Class Exercise: What Would Be Your Marginal Tax Rates in Your Federal Tax System?

Class 13: Readings Chapter 13 -The Evolution of the International Financial System
The Gold Standard
Bretton Wood
Oil Shock and the Third World Debt Crisis
Competitive Depreciations of Currencies Particularly in Asia
The Sub-Prime Mortgage Market.

Class 13/14: Chapter 19: International Finance
19.1 The Exchange Rate
19.2 Monetary Policy and the Exchange Rate
China’s Policy pp. 493-495
Competitive Devaluation (Asian QE policy of 2014/15).
What Policies Are Sustainable?

Class 15: Comprehensive Final: Monday, May 4 at 6:30 pm.

MBA Macroeconomic Readings also contains the following:

Summary of the Latest Federal Income Tax Data
Data Graphs from National Economic Trends St. Louis Fed
EXTRA CREDIT 2 Economic Growth and Development DUE CLASS 4.
Read Chapter 9.4 in the textbook to gain some background regarding economic growth and development. Listen to several of the Hans Rosling videos found on the TED Talk web site. Go to the Gapminder web site and choose some data that may pertain to economic growth and development. For example, place Income per person on the horizontal axis and chose some data for the vertical axis which could include the Corruption Perception Index, the math achievement of its 4th grade student, malnutrition, child survival rate, employment rates, etc. There are many other possibilities.

The Assignment: Show the movement of three different countries over time for five different measures. What have you learned from listening to some of his talks and from the data exercise? You may want to choose data that will provide some insight into the “preconditions for growth” (see the textbook Ch. 9.4) and other factors that influence growth. Be prepared to contribute to a class discussion.

Rosling


The following is a list of his video presentation - found by Googling Rosling TED Talks

TED 2006 The best stats you've ever seen 8.3M views Jun 2006, 19:50
TED 2007 New insights on poverty 2.6M views Jun 2007, 18:57
TED 2009 HIV — new facts and stunning data visuals 669K views May 2009, 10:02
TED @ STATE Let my dataset change your mindset 989K views Aug 2009
TED India Asia's rise — how and when 1.4M views Nov 2009, 15:50
Global population growth, box by box 1.8M views Jul 2010
The good news of the decade? 553K views Oct 2010
The magic washing machine 1.8M views Mar 2011, 9:15 13:20

Why you should listen? Even the most worldly and well-traveled among us will have their perspectives shifted by Hans Rosling. A professor of global health at Sweden's Karolinska Institute, his current work focuses on dispelling common myths about the so-called developing world, which (he points out) is no longer worlds away from the West. In fact, most of the Third World is on the same trajectory toward health and prosperity, and many countries are moving twice as fast as the west did.

What sets Rosling apart isn't just his apt observations of broad social and economic trends, but the stunning way he presents them. Guaranteed: You've never seen data presented like this. In Rosling's hands, data sings. Trends come to life and into sharper focus.