

## **MBA 703: ECONOMIC ENVIRONMENT OF THE FIRM FALL 2014**

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Office hours: Before class (1:00 – 1:45 or after class  
On Mondays 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.

### **TEXTBOOK**

Bade and Parkin, Foundations of Macroeconomics, 7<sup>th</sup> edition, ISBN 978-0-13-346062-9

### **PURPOSE**

The course will develop your analytical ability (1) to understand the connective linkages of among macroeconomic markets, (2) to analyze the current macroeconomic environment and (3) to assess 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, 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.

### **PREREQUISITES**

MBA 715: Integrative Business. MBA 703 is now 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 and BLS.gov and other sources such as The Tax Foundation. For domestic and international data go to the St. Louis Federal Reserve Bank (FRED) database and for international data go to the United Nations Human Development Report 2011, <http://hdr.undp.org>. For unique social, political, and analysis related to growth and development go to TED Talks and listen to various presentations “Talks” by Hans Rosling. See the assignment for class 1.

### **FACULTY STUDENT GUIDELINES**

*Can be found at [http://www.uncg.edu/bae/faculty\\_student\\_guidelines.pdf](http://www.uncg.edu/bae/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 Labor Day (Sept 1) or fall break (Oct 13).

### **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 shifts in the aggregate macro markets.
2. To use the tools of supply and demand to provide analysis of intended and unintended outcomes from government intervention in the market place.
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 with regard to employment and unemployment.
5. To identify the sources of economic growth for developed and developing countries with regard to public policy (savings, investment and taxation) that could increase the rate of potential (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 cycle.
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 with regard to the Asian currency crisis in 1997/98.
15. To analyze the current exchange rate policy of China and address its sustainability.

## **REQUIREMENTS and GRADES**

There will be two mid-terms (30% each) and a final exam.(40%). Tentative dates are September 22 and November 4 or 11. The final exam (40%) is December 8 from 3:30 – 6pm. 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 grade with special extra credit assignments during the semester. Points can be earned that are added to your test grade. The first opportunity (see the end of this syllabus) is the required special assignment due the first day. This assignment will be valued from zero to twenty additional points on test 1 or values from zero to fifteen on the final exam. Grading will be based on your oral and written work.

**COURSE OUTLINE: MBA 703  
Fall 2014**

Class 1: Economic Growth and Development

Read Chapter 9 Section 4: (Chapter 9.4)

Ch 1: The Economic Way of Thinking

Ch 2: Globalization and the Circular Flow Model of Economic Activity

Ch 3: PPF - Trade and Growth

Class 2: Chapter 4: Supply and Demand

Ch 4.1 Demand: Fig 4.1 and 4.2

Ch 4.2 Supply: Fig 4.3 and 4.4

Ch 4.3 Market Equilibrium and the Automatic Adjustment Process Fig 4.5 and 4.6

Ch 4.5 Factors that Shift the Supply and Demand Fig 4.7 and 4.8

Shifts in the Curve (Schedule) and Movements along the Schedule

Ch 4.6 Double Shifts Figure in Supply and Demand: Fig 4.9 and 4.10

Ch 4.7 Price Rigidities: Floor and Ceilings Fig 4.11, 4.12, 4.13 and 4.14

Consumer and Producer Surplus

Ch 4.9 Government Taxation: The Burden of Taxes, Dead Weight Loss

Ch 4.10 Government Subsidy

Class 3: Measuring GDP

Ch 5.1 Income and Expenditure Approaches

Ch 5.2 Real GDP

Classroom Exercise: Calculating nominal real GDP, actual GDP and the price level

Calculate the growth rate of output growth and of the price level,

Exercise: Draw a time series diagram of nominal and real GDP for the 1990-2014 period,

Class 4: Ch 5.3 The Business Cycle: Potential and Actual Real GDP

Exercise: Calculate Potential GDP and the Output Gap in a Time Series Diagram

Jobs and Unemployment

Ch 6.1 Labor Market Indicators: Definitions and Formula

Ch 6.2 U Rate, LFPR, and Alternative Labor Market Measures

Ch 6.3: Unemployment and Full Employment, Types, GDP and Output Gap

Ch 8.1: More on Potential Real GDP

Ch 8.2: Natural Rate of U Rate

Class 5: Ch 8 Potential Real GDP and the Natural Unemployment Rate

pp. 190 -191 Schools of Thought and Public Policy

Chapter 13.1: Aggregate Supply

Chapter 13.2: Aggregate Demand

Ch 8.1 Labor Market and the Production Function Determine Labor Market Equilibrium

Ch 8.2 The Natural Rate of Unemployment and Sticky (Rigid) Wages

The book uses real wages not nominal wages. Ch 8.2 Real wages are to be determined by the forces of supply and demand in the labor market, but government intervention and efficiency wages interfere. Full employment translates into potential real GDP.

Test 1: October 6 – Class 7

EXTRA CREDIT Opportunity 2: Provide an analysis of the current conditions in your country's labor market. Your analysis should include a number of different unemployment and employment measures. What are the important trends? 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, and various measures of unemployment the quality of jobs, the average wage rates etc. Maximum value is 10 points on the first test. Due October 10 at noon.

Class 6 will provide time to review for the test.

Class 6: Ch 7 The CPI and the Cost of Living (This Chapter is not testable material for test 1.

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 (Uses Real Interest  
Exercise: Adjusting by the CPI

Class 8: Ch 9 Economic Growth – This chapter will be the topical for the second half of class 7.

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

Rosling “Asia’s Rise: How and When?” & “Population Growth using IKEA boxes”

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

Class 9: 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 Expansionary case is introduced as is the contractionary case. The distinction between the monetary base and the money supply is critical. The quizzes are identical to what will be asked on test 2 and the final exam. The money multiplier is introduced through these two cases and the influence that the public and the banking system can have on the multiplier is discussed through the history of the Great Depression.

EXTRA CREDIT Opportunity 3: Google the Causes of the Great Depression. Summarize from several web sites the various causes of the Great Depression. Maximum value is 10 points on test 2. Please footnote your source material. Due October 31 at noon.

Class 9:11.3 The Federal Reserve System

11.4 Regulating the Quantity of Money

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

Class 11: 17.3 Alternative Monetary Policy Strategies – The Role of the Fed.

- Ch 13.1 Aggregate Supply
- Ch 13.2 Aggregate Demand
- Ch 13.3 Explaining Business Cycles

Test 2: November 10 – Class 11

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

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

Class 13/14: Chapter 19: International Finance

- 19.1 The Exchange Rate
- 19.2 Monetary Policy and the Exchange Rate
- The International Financial System over Last Century: Booms and Busts
- What policies Are Sustainable?

Class 15: Comprehensive Final: Monday, December 8 at 3:30 – 6 pm. Do not book a flight out of Greensboro for the holidays before Dec 9<sup>th</sup>.

## **MBA 703: Economic Policies & Impact on Global Outcomes**

ASSIGNMENT for the first class – August 18<sup>th</sup>: Economic Growth and Development

The assignment for the first class (August 18) is to choose, analyze and present some of the vast economic, social, education, and health data found at the GAPMINDER Web site for several different countries. You are responsible for your home country (e.g. Minjing – China, Shilpa – India, Rabia – Pakistan, Justine – Taiwan, Harsh – Japan), plus the United States plus one other Asian country of your choice and one European country of your choice. US students will choose one Asian, one European and one African country in addition to the USA. Other students who are registering over the summer will conduct the analysis for the United States, one European country, one Asian Country and their home country.

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 web site. Go to the Gapminder web site and choose some data that may pertain to economic growth and development. Present the data in graphical form. For example, place Income per person on the vertical axis and chose some data for the horizontal axis which could include the Corruption Perception Index, the math achievement of its 4<sup>th</sup> grade student, malnutrition, child survival rate, employment rates, etc. There are many more other possibilities. Show the movement of the country over time given the availability of the data.

You also should conduct a brief political/historic/economic analysis for your home country over the last century. You should investigate factors that contributed or retarded economic growth and development. What is the level of rent-seeking behavior in your country? What about crony capitalism? This part of the analysis should only be done for your home country. This is an open-ended assignment so there is no right answer.

Questions you should address include: What is the role of government and markets in the economic system in 1914? Has it changed over the past 100 years? What is the level of economic freedom and respect for property rights? How much corruption is in the country? What is the level of protection of domestic industry by policy and tariffs? How developed is the country's education system with regard to literacy of men and women? How have the life expectancy and the level of health changed? Did the Great Depression and World War II have a profound effect on your country? Did your country suffer from a revolution or a military coup that changed the economic allocation of scarce resources? Or has there been a shift in the political/economic system? Did your country have a hyperinflation episode? What happened and why? Not all of these questions will be necessarily pertinent for your country. You will want to develop your own additional list of issues and questions. You may want to think about a time line of events and changes that provide some insight into the "preconditions for growth" (see the textbook Ch. 9.4), policies, and other factors that influence growth.

## Rosling

Start at [www.gapminder.org/videos/200-years: a four minute introduction into Rosling](http://www.gapminder.org/videos/200-years: a four minute introduction into Rosling).

The following is a list of his video presentation which is 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**. By any logic, a presentation that tracks global health and poverty trends should be, in a word: boring. But in Rosling's hands, data sings. Trends come to life. And the big —usually hazy at best— snaps into sharp focus. Rosling developed the breakthrough software behind his visualizations through his nonprofit [Gapminder](#).

Rosling's presentations are grounded in solid statistics (often drawn from United Nations data), illustrated by the visualization software he developed. The animations transform development statistics into **moving bubbles and flowing curves that make global trends clear, intuitive and even playful**. During his legendary presentations, Rosling takes this one step farther, narrating the animations with a sportscaster's flair.

Rosling began his wide-ranging career as a physician, spending many years in rural Africa tracking a rare paralytic disease (which he named konzo) and discovering its cause: hunger and badly processed cassava. **He co-founded Médecins sans Frontières (Doctors without Borders) Sweden**, wrote a textbook on global health, and as a professor at the Karolinska Institut in Stockholm initiated key international research collaborations.