

MBA 703: ECONOMIC ENVIRONMENT OF THE FIRM SPRING 2013

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Office hours: Available before or after class

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, 2nd ed. by Tyler Cowen and Alex Tabarrok, ISBN 13: 978-1-4292-997-4

PURPOSE

The course will develop your analytical ability to understand the power of the price mechanism to allocate scarce resources through trade and exchange, to understand the connective linkages of interdependent aggregated markets, and to analyze the current macroeconomic environment and assess the effectiveness of government macroeconomic policies (e.g. fiscal, monetary, and exchange rate).

We 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 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.

SOURCES OF ECONOMIC ANALYSIS AND DATA

See government agencies such as CBO.gov, BEA.gov, Federalreserve.gov and BLS.gov. Other sources: The Tax Foundation, the Brookings, Institute, the American Enterprise Institute and the Cato Institute. For political and economic analysis, see web sites of Paul Krugman and Brad DeLong.

REQUIREMENTS and GRADES

Your grade will be determined by three tests which will be weighted accordingly: 30%, 30% and 40%.

Test 1 - 30% - February 6 – tentative date

/Test 2 - 30% - March 6 - tentative date

Test 3 – 40% - Final Exam TBD

No make-up tests! The weight of a missed test (assuming a valid excuse) will be added to the final 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

A wider grading scale may be utilized for the assignment of the final grade.

FACULTY STUDENT GUIDELINES

Can be found at 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.

BAD WEATHER POLICY

The cancellation of class due to weather conditions or other events may be made up by extending class time or having a make-up 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://academicintegrity.uncg.edu/>. Any violation of the Honor Policy may result in a failure for the assignment and subsequently the course.

LEARNING OBJECTIVES FOR MBA 703: ECONOMICS

Students should be able:

1. To use supply and demand to provide market analysis and outcomes.
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 analyze the behavior of the firm in various market structures.
4. 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; a country's current and capital accounts and the country's status as a debtor or creditor nation.
5. To analyze labor market issues with regard to employment and unemployment.
6. 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.
7. 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.
8. To describe how exchange rates changes correct trade disequilibrium and why financial flows can disrupt the equilibration mechanism and cause trade imbalances to worsen.
9. To analyze the effect of changes in expansionary and contractionary monetary policy on economic activity with regard to employment, real GDP and inflation.
10. 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.
11. 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.
12. 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.
13. 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.
14. 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.
15. 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.
16. To analyze the current exchange rate policy of China and address its sustainability.

Course Outline: MBA 703
Spring 2013

Class 1: Skim Chapters 1 and 2

First Read Through the Graphs in Chapters 3 and 4; before You Read the Text.

Chapters 3 and 4 Please Study for the First Class and Come With Questions

Applications Will Come From the Labor Market: Chapter 17

Microeconomics: Unit I

Chapter 1: The Big Ideas - Incentives, Price, Risk and Institutions Matter

Chapter 2: The Power of Trade and Comparative Advantage

2.1 Trade and Preferences

2.2 Trade and Globalization: p. 12 – Adam Smith – and p.15.

2.5 Takeaway

Chapter 3: Supply and Demand

3.1 The Demand for Oil

3.2 The Supply of Oil

3.3 Takeaway

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

Horizontal and Vertical Reading of the Demand and Supply Curve

Demand and Supply Shifters

Chapter 4: Equilibrium: How Supply and Demand Determine Prices

4.1 Equilibrium and the Adjustment Process – Fig 4.2 and 4.3

4.2 Gains From Trade Are Maximized at the Eq'm Clearing Price and Quantity

4.3 Does the Model Work: Evidence from the Laboratory? Fig 4.4

4.4 Shifting Demand and Supply Curves Fig 4.6 and 4.8

4.5 Terminology: D Compared w/ Qty Demanded and S Compared w/ Qty Supplied

4.6 Understanding the Price of Oil – Fig 4.9

4.7 Takeaway

Chapter 17 Labor Markets

17.1 Full Employment vs Equilibrium in the Labor Market

17.2 Disequilibrium Analysis: Efficiency Wages

17.3 Labor Market Issues: Minimum Wage

17.4 Derived Demand from National Economy: Short-run Rigid Wages vs Long-run Flexibility

Class 2: Review Class 1

Read Chapters 8, 5, 6 and the first three sections of Chapter 27

Chapter 8: Price Ceilings and Price Floors

- 8.1 Price Ceilings
- 8.2 Rent Controls: Long-run Consequences for NYC Rent Controls
- 8.3 Arguments for Price Controls
- 8.4 Universal Price Controls
- 8.5 Price Floors
- 8.6 Takeaway

Chapter 5: Elasticity and its Applications

- 5.1 The Elasticity of Demand
- 5.2 The Elasticity of Supply
- 5.3 Takeaway

Chapter 6: Taxes and Subsidies

- 6.1 Taxes: The Burden of Taxes, Dead Weight Loss
- 6.2 Subsidies
- 6.3 Takeaway

Chapter 27: Savings, Investment and the Financial System: Credit Market/Loanable Funds Market

- 27.1 The Supply of Savings
- 27.2 The Demand to Borrow
- 27.3 Equilibrium in the Loanable Funds Market

Class 3: Review from Classes 1 and 2, New Material From Prior Classes Plus Chapter 7.

Chapter 7: The Price System: Signals, Speculation and Prediction

- 7.1 Markets Link the World
- 7.2 Markets Link to One Another
- 7.3 Solving the Great Economic Problem
- 7.4 A Price is a Signal Wrapped Up in an Incentive
- 7.5 Speculation
- 7.6 Signal Watching
- 7.7 Prediction Markets
- 7.8 Takeaways

Optional Chapter: Market Failure

Chapter 10: Externalities: When Prices Send the Wrong Signal

- 10.1 External Costs, External Benefits, and Efficiency
- 10.2 Private Solutions to Emergency Problems
- 10.3 Government Solutions to Externalities

TEST 1 WILL BE GIVEN AT THE START OF CLASS 4

Class 4: Read Chapters 2 and 9. Skim Chapters 11, 12 and 13

Chapter 2: The Power of Trade and Comparative Advantage

- 2.1 Trade and Preferences
- 2.2 Trade and Globalization: p. 12 – Adam Smith – and p.15.
- 2.5 Takeaway

Chapter 9: International Trade

- 9.1 Analyzing Trade with Supply and Demand
- 9.2 The Cost of Protectionism
- 9.3 Arguments Against International Trade
- 9.4 Takeaway

Chapter 11: Costs and Profit Maximization Under Perfect Competition

- 11.1 What Price to Set?
- 11.2 What Quantity to Produce
- 11.3 Profits and the Average Cost Curve
- 11.4 Entry, Exit, and Shutdown Decisions
- 11.5 Entry, Exit and Industry Supply Curves
- 11.6 Takeaway

Chapter 12: Competition and the Invisible Hand

- 12.1 Invisible Hand Property 1: The Minimization of Total Industry Costs of Prod'n
- 12.2 Invisible Hand Property 2: The Balance of Industries
- 12.3 Creative Destruction
- 12.4 The Invisible Hand Works with Competitive Markets
- 12.5 Takeaways

Chapter 13: Monopoly

- 13.1 Market Power
- 13.2 How a Firm Uses Market Powers to Maximize Profit's
- 13.3 The Cost of Monopoly: Deadweight Loss
- 13.4 The Cost of Monopoly: Corruption and Inefficiency
- 13.5 The Benefit of Monopoly: Incentives for R&D
- 13.6 Economies of Scale and the Regulation of Monopoly

Calendar

Class 1:	January 16	Class 9:	March 20: Test 2
Class 2	January 23	Class 10:	March 27
Class 3	January 30	Class 11	April 3
Class 4	February 6: Test 1	Class 12:	April 10
Class 5:	February 13	Class 13:	April 17
Class 6:	February 20	Class 14	April 24
Class 7:	February 27	Class 15	Final Exam: TBD
Class 8:	March 6		

MBA 703: Macroeconomics and Globalization

OVERVIEW: Circular Flow Model of National and International Economics

The Output Market

The Labor Market

The Loanable Funds (Credit) Market

The Government Sector

Internationalizing the Model

 The Balance of Payments

 The Foreign Exchange Market

Use Expansionary Fiscal Policy to Show How the Markets Are Interconnected

 The Difference Between the Budget Deficit and the National Debt (Stocks and Flows)

 “Fiscal and Monetary Policy in Time of Crisis,” St Louis Fed, Libre8, March 2011

Chapter 24: GDP and the Measurement of Progress

24.1 What is GDP? Definition

24.2 Growth Rates

24.3 Nominal vs. Real: Stripping Out Inflation (Price Changes) from Nominal Values
Nominal GDP - the Intersection Aggregate Demand (AD) Aggregate Supply (AS)
Real GDP Found by Using Base Year Prices

24.4 Cyclical and Short-run Changes in Real GDP: Recessions and Expansions

 “What is a Recession,” St. Louis Fed, Libre8, February 2009

24.5 The Many Ways of Splitting GDP: Expenditure Approach and Factor Income Approach

 The Expenditure Approach Measures $AD = C + I + G + NX$

 Insert: Chapter 36: International Finance

 The US Trade Deficit and Your Trade Deficit: Creation of Debt

 The Balance of Payments: Current Account and Financial (Capital Account)

 Foreign Exchange Rates: What Are Exchange Rates?

Chapter 28: Unemployment

28.1 Defining Unemployment, Employment and Full Employment (Natural Rate)

28.2 Define Employment Rate and Labor Force Participation Rate

28.3 Analyze the Recent Change in Job Creation

28.4 Define Frictional, Structural and Cyclical Unemployment

28.5 Okun’s Law, Closing the Output Gap, and Job Creation

28.6 Cyclical U and the Natural Rate of Unemployment: Taxes, Incentives, Benefits

28.7 Labor Force Participation: Labor Reform, Regulation, Unions and Minimum Wage

28.8 Takeaway

Use the Labor Market worksheet and the FRED Labor Market Data to work through Chapter 28.

Chapter 27: Saving, Investment, and the Financial System

27.1 The Supply of Savings

27.2 The Demand of Borrower

- 27.3 Equilibrium in the Markets for Loanable Funds (Credit Market)
- 27.4 The Role of Intermediaries: Banks, Bonds and Stock Markets
- 27.5 What Happens When Intermediation Fails?
- 27.6 The Financial Crisis of 2007-2008: Leverage, Securitization and Shadow Banking
 “Subprime Mortgage Lending,” St. Louis Fed, Liber8, September 2007
- 27.7 Takeaway

Chapter 25: The Wealth of Nations and Economic Growth

- 25.1 Key Facts About the Wealth of Nations
- 25.2 Understanding the Wealth of Nations
- 25.3 Incentives and Effects
- 25.4 Takeaway
- Insert
- 25.5 Supply-side Economics
 - 25.51 Factors of Production
 - 25.52 Incentives and Institutions
- 25.6 Savings (Decision) Rate and Capital Formation
- 25.7 Long-term Trend Rate of Potential Real GDP Growth
- 25.8 Short-term Fluctuations through Supply Shocks

Chapter 26: Growth, Capital Accumulation and the Economics of Ideas (Optional)

Chapter 29: Inflation and The Quantity Theory of Money

- 29.1 Defining and Measuring Inflation: Price Indexes Include CPI and the GDP Deflator
- 29.2 Quantity Theory of Money: Inflation is Always and Everywhere a Monetary Phenomenon
- 29.3 The Costs of Inflation: Real Rate of Return
- 29.4 Takeaway

Chapter 30: Business Fluctuations: Aggregated Demand and Supply

- 30.1 The Dynamic AD Curve
- 30.2 The Solow Growth Curve – the Dynamic Long-run AS Curve
- 30.3 Real Shocks
- 30.4 AD Shocks and the Short-run AS Curve
- 30.5 Shocks to the Component of AD
- 30.6 Understanding the Great Depression, AD Shocks and Real Shocks
- 30.7 Takeaway

Chapter 31: Transmission and Amplification Mechanism

- 31.1 Intertemporal Substitution
- 31.2 Uncertainty and Irreversible Investment
- 31.3 Labor Adjusting Costs
- 31.4 Time Bunching
- 31.5 Collateral Damage

Chapter 32: The Federal Reserve System and Open Market Operations

- 32.1 What is the Federal Reserve System?
 Insert: “Financial Crisis, Reform, and Central Banking; Establishing the Fed,

St. Louis Libre8, January 2011.

- 32.2 The U.S. Money Supplies
- 32.3 Fractional Reserve Banking, the Reserve Ratio and the Money Multiplier
 - 32.31 Great Depression; The Money Multiplier and the Three Banking Crisis, p. 561
 - 32.32 The Money Multiplier Changes Drastically
- 32.4 How the Fed Controls the Money Supply
- 32.5 The Fed and Systematic Risk
- 32.6 Revisiting Aggregate Demand and Monetary Policy
- 32.7 Who Controls the Fed?

Chapter 33: Monetary Policy

- 33.1 Monetary Policy: the Best Case
 - 33.2 The Negative Real Shock Dilemma
 - 33.3 When the Fed Does Too Much
 - 33.4 Take Away
- Insert
- 33.5 Overexpansion and Inflation: Unsustainable Monetary Policy
 - 33.51 Targeting Interest Rates: 1976-1982
 - 33.52 Disinflation and Putting the Brakes On
 - 33.53 The Housing Boom and Bust: 1997-2008: US Policies
 - 33.54 Quantitative Easing;

Chapter 34: The Federal Budget: Taxes and Spending

- 34.1 Tax Revenues
- 34.2 Spending
- 34.3 Will the U.S. Government Go Bankrupt?
- 34.4 Revenues and Spending Under Count the Role of Government
- 34/5 Takeaway

Chapter 35: Fiscal Policy

- 35.1 Fiscal Policy: The Best Case
- 35.2 The Limits to Fiscal Policy:
Types of Crowding Out
Add the Case of the Twin Deficits Under Reagan: Crowding Out of the Trade Sector
- 35.3 When Fiscal Policy Might Make Matters Worse
- 35.4 So When Is Fiscal Policy a Good Idea?

Chapter: Extra Reading Will be Posted on Blackboard

- The Bretton Woods System: Adjustable Peg
- The Experience of Maintaining Fixed Exchange Rates
- The Asian Currency Crisis (1995-1997)
- Managed Exchange Areas