

**Kellogg School of Management  
Northwestern University**

*Syllabus*

Macroeconomic Policy and Global Capital Markets (FINC 473)  
Winter 2024

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**Course overview**

What drives the global economy? How does government policy affect economic and financial conditions? This course focuses on the economic forces and the policy responses relevant for business, investment, and growth strategies.

Measurement underlies all analysis, so we begin by learning how to interpret data on national and international economic activity, with particular attention to the measurement of output and inflation. We then study patterns of economic growth in the long run, including the status of advanced economies, and growth in emerging markets.

Our focus then turns to two key markets: the market for labor, and the market for capital. We study key trends and cyclical changes in labor markets, connecting them to rising inequality. Credit and financial markets play a crucial role in the process of capital accumulation but are also prone to crises. We study their role in both driving growth, and propagating downturns.

We then shift attention to economic policy, starting with monetary policy. Monetary policy has been transformed by the global financial crisis of 2009 and the COVID-19 crisis, and the rapid onset of inflation that followed. We study monetary policy decisions and their effect on financial institutions and credit markets. This includes both conventional policies and quantitative easing (QE) as implemented by Central Banks around the world.

We then turn to fiscal policy. Fiscal policy is the other main tool of macro policy, which also directly interacts with financial markets through sovereign debt, such as the Treasury market, the largest and (usually) most liquid market in the world. We consider government spending and the revenue programs that fund it, plus the government liabilities that result when revenues fall short of expenditures. The sustainability of sovereign debt is a key issue, as budget deficits have ballooned since 2020. We analyze the issue in detail.

Since these markets are global, capital flows, trade balances, and the relative strength of currencies are behind all these discussions. We look at these considerations explicitly as we pull together the topics at the conclusion of the course.

The course provides a high-level overview to aid business planning, investment strategies, and policy analysis. FINC 473 counts toward the Finance major and is on the short list of classes for the Analytic Finance major.

## Modality

The class is in-person. If students registered for the in-person option cannot attend in-person for health-related reasons, a zoom option will be made available for them to participate in the class in real time.

## Pre-requisites

The prerequisite for this class is Finance I (FIN-430-0).

## Material

**Readings:** Readings provide you with background material that will help make your experience in class more rewarding. They are listed by topic in the section "Detailed material" below. The material comes from four sources:

*Textbook:* Andrew Abel, Ben Bernanke, and Dean Croushore, *Macroeconomics*, Pearson, 10th Edition, 2020. The textbook is available for rent at:

<https://www.pearson.com/store/p/macroeconomics/P100002678554>

*Teaching notes:* these notes provide an in-depth description of theoretical tools that we will use in. They will be available in the "Files" section of Canvas.

*Discussion sets:* these are short and practical exercises on the topic that we will discuss that week in class. They are meant to get you thinking about the issues ahead of class, as well as to provide a basis for class discussion. Each discussion set contains a few questions, the answer to which you will have to turn in before class. The discussion sets are available in the "Files" section of Canvas.

*Articles and additional readings:* these are additional readings, also on the week's topic, that will provide you with more background on the key issues. The sources will typically be articles from the financial press or blogs, but sometimes also from academic review papers. Not all are required readings for the class. In fact, there are substantially more optional than required readings. The optional readings are meant to provide deeper background and extensions depending on your interests. All readings will be made available in the "Files" section of Canvas.

**Slides:** An electronic copy of the presentation slides for each lecture will be available on Canvas before each class. Make sure that you obtain these slides, as they will structure your in-class notes and reduce the pace of notetaking during class.

## Structure of Graded assignments

The course grade is out of 100 points. There are five types of graded assignments:

*Problem sets (15 points):* There will be two **individual** problem sets. These are intended to help you keep up to date on the analytic content of the material as the course proceeds. The problems and due dates will be posted under the files tab on Canvas.

*Discussion sets (20 points for the written assignments):* Discussion Sets include both quantitative and qualitative questions to prepare for class discussion. These are due before the relevant class. The answers to the questions are to be turned in and will be graded. You can prepare and hand in the questions **by group**. Class discussion will contribute to the participation score.

*Participation (15 points):* You are expected to actively participate in the class discussion. This does not require frequent or voluminous comments – thoughtful and substantive contributions are welcome. Also, good questions are an excellent way to participate. The participation grade will be centered around Discussion Sets (10 of 15 points), but additional points are available for consistent classroom participation (5 of 15 points).

*Country Project (15 points):* At the end of the class, each **group** will be asked to prepare an analysis of the current macroeconomic situation and performance in a country of their choice. Groups can choose to either do an in-class presentation, or hand in their analysis as a written assignment. A description of the assignment and the due date will be posted on Canvas.

*Final exam (35 points):* An individual final exam will cover the analytic content of the course. The exam will cover all topics. The exam questions will be like those in the problem sets, so that you will have time to practice as you work on the problem sets. Additionally, I will conduct a review session with practice exercises in the last week of class.

Problem Sets	15
Discussion Sets	20
Participation	15
Final exam	35
Country Project	15

**Case packet**

The case packet is slim: it only contains three items (two case studies used as basis for discussion sets, and one optional reading). Both case studies are required reading, so you should purchase the packet (it is comparatively very cheap). The material in the case packet is marked in the reading list below with a **(C)**.

### **Supplementary Information**

Up-to-date information, calendar items, and announcements will be kept on Canvas, where you can always check for current course information. Announcements and any additional course materials will be posted there as well. Finally, I will regularly post interesting readings from the financial or academic press on Canvas, as well as useful links to blog, podcasts, and twitter feeds connected to the topics we'll cover in class.

## Main Topics

### Topic 1.            Introduction and measurement

- I. The measurement of economic activity
- II. The savings and investment model

### Topic 2.            Long-run growth: proximate and fundamental causes

- I. Growth accounting
- II. How institutions shape long-run growth

### Topic 3.            Capital markets: credit, growth, and crises

- I. The structure of capital markets in advanced economies
- II. Financial frictions and the role of financial intermediaries
- III. Balancing growth and crises in capital markets

### Topic 4.            Labor markets: short-term cycles and long-term trends

- I. Labor demand and labor supply
- II. Unemployment
- III. The minimum wage
- IV. Long-term trends in labor markets

### Topic 5.            Monetary policy: the Fed and the financial system

- I. Money and Inflation
- II. Conventional Monetary Policy
- III. Unconventional Monetary Policy

### Topic 6.            Fiscal policy: taxes and spending, stimulus, sovereign debt and crises

- I. Taxes, spending, and the government budget
- II. Fiscal stimulus
- III. Government debt sustainability
- IV. Long run fiscal challenges

### Topic 7.            International capital and trade flows

- I. Exchange rate regimes
- II. Capital flows across borders
- III. Global imbalances

## Detailed readings

Required material is marked by (R). Optional material is marked by (O). Material only available in the case packet is marked by (C). "ABC" denotes the textbook. Green text refers to the week of class for the topic.

### Topic 1.            Introduction and metrics of economic performance Week 1

#### I. The measurement of economic activity

1. (R) Measurement of Economic Activity: *ABC* chapter 2
2. (O) "Inflation is still high. What's driving it has changed." *New York Times*, April 27, 2023
3. (O) "Goods deflation is back" *The Wall Street Journal*, December 3, 2023

#### II. The savings and investment model

1. (R) Teaching note: "Savings, investment, and capital flows"
2. (R) Balance of Payments: *ABC* chapter 5, introduction and section 5.1
3. (O) "It's time to reassess your hurdle rates," *JP Morgan Corporate Finance Advisory*, 2016

(O) Book of the week: Robert Gordon, "The Rise and Fall of American Growth"

### Topic 2.            Long-run growth: proximate and fundamental causes Week 2

#### I. Growth accounting

1. (R) Long-Run Economic Growth: *ABC* chapter 6, section 6.1.
2. (R) Teaching note: "Growth accounting"
3. (O) "Measuring management," *The Economist*, Jan 18th, 2014
4. (O) "China's economic data," *St Louis Fed Regional Economist*, Q2, 2017

#### II. How institutions shape long-run growth

1. (R) "The quest for secure property rights in Africa," *The Economist*, Sep 20th, 2020
1. (O) "When the lights go out," *The Economist*, May 4th, 2019
2. (O) (C) "Getting institutions right," *Harvard University working paper*, Dani Rodrik, 2004

(O) Book of the week: Daron Acemoglu and James A. Robinson, "Why Nations Fail"

### Topic 3.            Capital markets: credit, growth, and crises Week 3

I. The structure of capital markets in advanced economies

1. (R) Teaching note: "Capital markets: structure and function"
2. (O) "Putting the capital back into capitalism," *The Economist*, Jul 25th, 2020

II. Financial frictions and the role of financial intermediaries

1. (O) "From the people, for the people," *The Economist*, May 7th, 2015

III. Balancing growth and crises in financial markets

1. (R) "A template for understanding big debt crises," (pp.1-12), Ray Dalio, 2018
2. (R) Teaching note: "Leverage and risk-taking"

(O) Books of the week: Adam Tooze, "Crashed"; Michael Lewis, "The Big Short"

Topic 4.            Labor markets: short-term cycles and long-term trends

Week 4

I. Labor supply and labor demand

1. (R) Teaching note: "Labor supply and labor demand"
2. (O) "Do wages drive prices, or vice-versa?" *Wall Street Journal*, Sep 18th, 2022

II. Unemployment and labor market policies

1. (R) Unemployment: *ABC* chapter 3 section 3.5.
2. (O) "Who's missing from the Post-Pandemic Labor Force?" The Hamilton Project, April 2023

III. The minimum wage

1. (O) "The Curse of Econ 101," *The Atlantic*, Jan 10th, 2017

IV. Long-term trends in labor markets

1. (O) "Measuring the 1%," *The Economist*, Nov 28th, 2019
2. (O) "Lessons from the rise of women's labor force participation in Japan," *The Hamilton Project*, November 2017
3. (O) "Generative AI at work," Brynjolfsson, Li and Raymond, NBER working paper 31161, April 2023. [Intro only.]

(O) Book of the week: Goldin and Katz, "The race between education and technology"

Topic 5.            Monetary Policy and the Financial System

Week 5: Money, inflation, and conventional monetary policy

I. Money and inflation

1. (R) Teaching note: "Money supply and inflation"
2. (R) Money and Money Demand: *ABC* Chapter 7, introduction and section 7.1
3. (O) "The shawarma paradox," *The Economist*, Aug 11th, 2020

4. (O) "What's the fuss over central bank digital currencies?," *The Economist*, February 16, 2021

## II. Conventional monetary policy

1. (R) Teaching note: "The Federal Reserve and money markets"
2. (R) Money supply and monetary institutions: *ABC* Chapter 14, sections 1 through 4
3. (O) "What is the Philips curve (and why has it flattened)?", *St Louis Fed Economics Blog*, Jan 2020
4. (O) "Bad news from the Fed? We've been here before," *New York Times*, September 22, 2022
5. (O) "Inflation: Progress and the path Ahead," *speech by Jerome Powell, chairman of the Federal Reserve, at the Jackson Hole Symposium*, August 25, 2023

(O) Book of the week: Liaquat Ahamed, "The Lords of Finance"

## Week 6: Unconventional monetary policy

### III. Unconventional monetary policy

1. (R) Teaching note on "Monetary policy and long-term rates"
2. (O) "How did Covid disrupt the market for Treasury debt?", *Brookings Institution Blog*, May 1, 2020
3. (O) "The Corporate Credit Facilities", *NY Fed Liberty Street Blog*, May 26, 2020

### IV. Financial regulation

1. (R) Teaching note on "Leverage and risk-taking"
2. (O) "The implications of unrealized losses for banks," *Marsh and Laliberte, Federal Reserve Bank of Kansas City Economic Review*, April 2023.
3. (O) "SVB's collapse exposes the Fed's massive failure to see the bank's warning signs," *The Brookings Institution*, March 2023.

(O) Book of the week: Bernanke, Geithner and Paulson, "Firefighting"

## Topic 6.            Fiscal policy: taxes and spending, stimulus, and government debt

## Week 7: Taxes, spending, and stimulus

### I. Taxes, spending, and the government budget

1. (R) Government spending and its financing: *ABC* chapter 15, section 15.1
2. (O) "How can Scandinavians tax so much?" Henrik Jacobsen Kleven, *Journal of Economic Perspectives*, Fall 2014.
3. (O) "Why do developing countries tax so little?" Timothy Besley and Torsten Persson, *Journal of Economic Perspectives*, Fall 2014.

### II. Fiscal stimulus

1. (R) Teaching note: "Ricardian equivalence"



2. (R) Government spending, taxes, and the macroeconomy: ABC chapter 15, section 15.2
3. (O) "Has the pandemic shown inflation to be a fiscal phenomenon?," *The Economist*, Dec 18th, 2021
4. (O) "An event study of the Inflation Reduction Act," *Brookings Institution*, Sep 19th, 2023. [Intro only.]

(O) Book of the week: William G. Gale, "Fiscal Therapy"

### Week 8: Government debt

#### III. Government debt sustainability

1. (R) Teaching note: "Sovereign Debt Dynamics"
2. (R) Government deficits and debt: ABC chapter 15, section 15.3
3. (O) "Financing the US response to Covid," *St Louis Fed Blog*, Dec 1st, 2020
4. (O) "Low interest rates and government debt," John Cochrane, *The grumpy economist blog*, Jan. 11, 2021

#### IV. Long-run fiscal challenges

1. (O) "The coming fiscal cliff," The Hamilton Project, September 2023. [Intro only.]

(O) Book of the week: Michael Lewis, "Boomerang"

### Topic 7. International capital flows

#### Week 9

#### I. Exchange rate regimes

1. (R) Fixed exchange rate regimes: ABC chapter 13, section 13.5
2. (R) (C) "Reducing Inflation in Argentina: Mission Impossible?," pp.10-17, *Columbia Caseworks*, Fernando Alvarez and Stephen Zeldes
3. (O) "Sudden stops: a primer," Stephen Cecchetti and Kim Schoenholtz, Jul 9th, 2018

#### II. International trade and capital flows

1. (R) Savings and investment in an open economy: ABC chapter 15, sections 15.1-15.5.

#### III. Global imbalances

1. (O) "Global fallout from rate moves won't stop the Fed," *The New York Times*, Oct 7th, 2022

#### IV. Liquidity traps (if time)

1. (R) Teaching note: "Liquidity traps and deflation traps"
2. (O) "Lessons from Japan," *The Financial Times*, Nov 22nd, 2020

(O) Book of the week: Carmen Reinhart and Kenneth Rogoff, "This Time is Different"

*Last update: 18-Jul-24*