

NAVIGATING MACROECONOMIC UNCERTAINTY

Course Objectives

a) **Awareness of External Issues Affecting Business:** Students shall gain a comprehensive understanding of how firms' external environment influences their strategies and performance. They will examine how key macroeconomic variables, such as interest rates, inflation, and fiscal policies, are determined. Subsequently, we understand how these factors impact firm decisions (investment, labor, sales) and overall economic growth. In addition to domestic considerations, the course will also delve into the complexities of global markets and their implications for firms' operations. Students will explore the dynamics of exchange rates, international trade and the emergence of global supply chains, gaining insights into how firms navigate the complexities of global competition and market integration.

b) **Critical and Integrative Thinking:** Through case studies and practical applications, students will develop the analytical skills and strategic acumen necessary to thrive in an increasingly interconnected and competitive global business environment. Each session would demonstrate how firms' decision making is impacted by macroeconomic factors.

Recommended Text Book and Readings

- The recommended textbook is *Macroeconomics* 8th Edition, by Andrew B. Abel, Ben Bernanke and Dean Crushore (referred to as **ABC** in the readings). If you attend all classes and take notes, you can use the textbook mainly as a reference or a supplement for details not covered in class due to time constraints. Several copies of this book are also available at the Learning Resources Center (LRC).
- Additional readings – notes, cases, articles from the financial press – supplied in the course packet are all required. We will discuss several of these articles in detail in class.

Session-Wise Topics/Readings

Firm Interaction with Domestic Markets

1. Introduction to Firms' External Environment

ABC: Chapter 1

Topics: Course Motivation and National Income and Product Accounts

Readings:

- 2024 India Outlook - Small and Midsized Businesses on the Rise - Wall Street Journal/Deloitte – April 2024
- How Is China's Economy Doing? Not Nearly as Well as China Says It Is – [Wall Street Journal](#) – December 6, 2023
- Kenya Joins Africa's Top 10 Economies After Rebasing Of Its Gross Domestic Product (GDP) – [Forbes](#) – October 1, 2014

2. Unlocking Growth of Modern Economies

ABC: Chapter 5

Topics: Growth Accounting, Solow Growth Model

Case Study: Convergence/Divergence of GDP

Readings:

- Why improving education in India is the key to growth - [World Economic Forum](#) – December 10, 2014
- America's Biggest Economic Challenge May Be Demographic Decline - [The New York Times](#) – April 3, 2019
- How to Tackle Latin America's Informal Economy - [Econ Americas](#) – March 21, 2019
- Secret Sauce - [The Economist](#) - November 12, 2009

3. Firm Investment and Domestic Interest Rate

ABC: Section 2.1, Chapter 3

Topics: How interest rate gets determined in the economy?, Capital demand and supply

Case Study: Fall in savings rate in India in the last decade and crowding out

- Markets think interest rates could stay high for a decade or more – [The Economist](#) – Nov 2, 2023

4. Hiring, Unemployment and Wage Inequality

ABC: Chapter 2

Topics: Labor demand and supply, unemployment, inequality

Case Study: Autor and Dorn (2013) – skill-biased technological change

Readings:

- Economists Pin More Blame on Tech for Rising Inequality - [The New York Times](#) - January 11, 2022
- Recession, tech kill middle-class jobs - [Wisconsin State Journal](#) - January 22, 2013
- The Great Resignation Is Accelerating - [The Atlantic](#) - October 15, 2021

5. Money, Inflation and Financial Crisis

ABC: Sections 6.1, 6.3, 6.5, 13.1, 13.2

Topics: What is Money?, Quantity Theory, Fractional Reserve Banking

Case Study: Silicon Valley Bank, 1930s Depression

Readings:

- Bitcoin, Inflation and the Misguided Fear of Government Money Creation - [The New York Times](#) – January 11, 2022
- The World Gold Standard System Will Rise Again, But, Not Yet - [Forbes](#) - December 6, 2019
- G.O.P. Candidates Viewing Economy's Past Through Gold-Colored Glasses - [The New York Times](#) - December 1, 2015
- How resilient are the banks? - [The Economist](#) - July 2, 2020

6. Central Banking and Monetary Policy
 ABC: 7.1-7.3, 9.1, 11.1-11.3, 13.5
 Topics: Neutrality of Money, Monetary Policy, Inflation Targeting
 Case Study: Recent Inflation Spikes after Covid-19
 Readings:
 - What caused the great inflation? - [Financial Times](#) – February 20, 2024
 - Hot Economy, Rising Inflation - The Fed Has Never Successfully Fixed a Problem Like This - [Wall Street Journal](#) - April 18, 2022
 - ECB cuts rates to new low and expands QE - [Financial Times](#) - March 10, 2016

7. Fiscal Policy: Understanding Government Balance Sheet
 ABC: Chapter 14
 Topics: Sources of tax, Expenditure, Deficits, Ricardian Equivalence
 Case Study: Government of India Budget, India's Debt Sustainability Analysis
 Readings:
 - How High Should Government Debt. Economists Can't Agree - [Wall Street Journal](#) - February 16, 2020
 - The Case for Permanent Stimulus - [The New York Times](#) - March 7, 2020
 - Trump's Tax Cut Fueled Investment but Did Not Pay for Itself, Study Finds - [The New York Times](#) - March 4, 2024

Firm Interaction with Global Markets

8. Determinants of World Interest Rate
 ABC: Sections 4.1 – 4.3
 Topics: Open Economy Accounting, Small Open Economy, Sovereign Debt and Risk
 Case Study: Greece Crisis (2009)
 - Europe's Impossible Dream - [The New York Times](#) - July 20, 2015

9. Forex Risk Management
 ABC: 12.1, 12.2
 Topics: Nominal vs. real exchange rates, PPP, Exchange Rate Systems, Currency Crisis
 Case Study: Sri Lanka Crisis (2022), Bank of England Crisis (1992), Big Mac Index
 Readings:
 - Why the Dollar Dominates - [The New York Times](#) - April 15, 2022
 - In Argentina, the U.S. Dollar Could Soon Become King - [The New York Times](#) – October 6, 2023
 - How Japan Can Intervene in Currency Markets to Support the Yen - [Bloomberg](#) - April 20, 2022

10. Export Dynamics and rise of Global Supply Chains
 Topics: Trade Pattern, Ricardian Comparative Advantage Model, GVCs, Protectionism
 Case Study: Trade War between US-China, India's BOP
 Readings:

- The U.S. Labeled China a Currency Manipulator. Here's What It Means - [The New York Times](#) - August 6, 2019
- Supply-Chain Crisis Fuels Latest Retreat From Globalization - [Wall Street Journal](#) - October 20, 2021
- Globalization Isn't Over. It's Changing. - [The New York Times](#) - April 11, 2022

Handouts for the class

The slides used during the lecture will be available through LMS at the beginning of the session.

Evaluation Components

Your grade for the course will be based on your performance on the midterm and final exams, as well as on the in-class debates. The course grade is determined as follows: **Course Grade = 0.4*Midterm grade + 0.4*Final exam grade + 0.2*Debates**, where all grades are on a scale of 100.

Midterm & Final Exams

- Exams are closed book exams. Calculators are allowed but laptops, smart-phones and similar advanced electronic devices are not.
- The exams are not group projects. They are to be your work and yours alone.
- Students are required to adhere to the standards of conduct in the Honor Code, and you will be required to sign an honor code pledge on your submitted examination. Collaborations on the examinations of any sort would constitute a violation of the honor code.
- There is no make-up midterm exam. You can miss the midterm only for an emergency, such as illness. This option is available only if you provide prior information to the professor. In this case, the entire weight of the exams will shift to the final exam; that is, the final will count toward 80% of the course grade.
- Verbal appeals for grades will not be entertained. A written statement, clearly explaining the reasons for the re-grade request has to be submitted. The entire exam will be regraded, and the score may increase, decrease, or stay the same.
- If you have difficulty with any of the material, you should email your questions to the professor or the teaching assistant.

Debates

Students will be randomly assigned to groups that will support/critique a given macroeconomic policy. More details will be shared in the class. The debate will count for 20% of the overall grade for the course and will be computed as follows;

- Professor assessment -- 15%
- Peer assessment -- 5%. All members of the team will grade their other team members on their work on the team project.

ISB-recommended Attendance Policy

Learning is an interactive process. ISB students are admitted partly based on the experiences they bring to the learning community and what they can add to class discussions. Therefore, attendance is an important aspect of studying here. Absence is only appropriate in cases of extreme personal illness or injury leading to hospitalization, family bereavement. Voluntary activities such as job interviews, business school competitions, travel plans, joyous family occasions, etc. are not valid reasons for missing a class. Late arrival and early departure are disruptive to the learning environment; you should be present in class before the scheduled start time and stay till the conclusion of class.

Requests for excuse of attendance, if any, should be forwarded to the Office of Academic Services (ASA) at ASAAssist_Hyd@isb.edu (for Hyderabad) and ASAAssist_Mohali@isb.edu (for Mohali) for approval. ASA team will in turn keep the Faculty and Academic Associate/s informed of the same, so that attendance could be marked accordingly.

The ISB expects students to attend all class sessions in every course section. Attendance will be marked and recorded on LMS. However, if due to completely unavoidable reasons a student is forced to miss a session, the School policy is below:

- If a student misses 20% of sessions in a course; there will be no grade penalty.
- If a student misses 30% of sessions in a course, s/he will obtain a letter grade lower than that awarded by the faculty for that course.
- If a student misses 40% of sessions in a course, the student will receive a letter grade that is two levels lower.
- If a student misses more than 40% of sessions in a course, the student will receive an 'F' grade for that course.