COURSE 180.336
MACROECONOMIC STRATEGIES

LECTURE 1:

Welcome.
My name is Bob Barbera, I'll be teaching course 180.336, *Macroeconomic Strategies*.
Class will meet from 1:30 pm to 3:30 pm each Wednesday. I plan to split most
afternoons. I will lecture for roughly the first hour. We will spend the second hour in a
round table discussion about emerging economic and financial market developments. My
office hours, in Wyman 557, are Wednesday from 10:30 am to 11:45 noon.

This course is fundamentally about the business of making sense of emerging economic
developments. Accordingly, I will spend the lion's share of this lecture sketching out the
backdrop for the globe's economic and financial market position and I will describe the
consensus forecast for the U.S. and global economy in 2020. Each of you will be required
to monitor/modify one part of that forecast.

Who I am:

My bio:

*I spent 30 years as the Chief Economist of one of four different Wall Street firms; Mt
Lucas for 3 years, ITG for 13 years, Lehman Brothers for 8 and E.F. Hutton for 6. Before
arriving on Wall Street I served as a staff economist for U.S. Senator Paul Tsongas and
as an economist for the Congressional Budget Office. I also lectured at M.I.T.*

*From 2004 through 2012, I also taught a version of this class at JHU. In the fall of 2013,
I accepted the role of lecturer for the introductory Macroeconomics class at JHU. I now
spend much of my time at Johns Hopkins, teaching, participating in seminars and
collaborating with other faculty members.*

I have both a Ph.D. and a bachelor's degree from Johns Hopkins.

What can you hope to take away from the course?

If you make an effort, you will come to appreciate the dynamic process that reshapes, on
a real-time basis, consensus opinion about the current and future economic state of
affairs.

That is no small thing. Listen carefully to commentary from business leaders, University
officials, public policy makers and entrepreneurs. More times than not they frame their
strategies for the future around their sense of how the overall economy will function. In
other words, economic forecasts underpin the decisions of a great many organizations.

What I Expect from Each of You:

The course attempts to marry relevant macroeconomic theory to real time assessments of evolving economic circumstances. Put differently, we are trying to guess what is going to happen to a list of key economic variables as we, simultaneously, develop analytic skills that will help us in this guessing game.

In order to have opinions about how key statistics may evolve we need to have some sense of proportion, some ideas about the size and growth rates and importance of various economic barometers. In addition, to take advantage of expert opinion on forecasting issues, we need to be familiar with consensus expectations on the evolution of key economic statistics.

Lecture 1 focuses on how to approach the world of forecasting and the specifics of the global economic backdrop in 2020. We will review consensus expectations for the barometers we will be zeroing in on during the class.

Lectures 2 through 5:

You will need to grasp basic accounting concepts and develop an understanding of the key macroeconomic barometers we will analyze. You will learn macroeconomic concepts that allow us to distinguish between secular and cyclical dynamics for productivity, output, employment and inflation. We will learn about key linkages, fiscal multipliers, and income/ price elasticities for global trade. We will come to know how the Federal Reserve, the European Central Bank, the Bank of Japan and the Peoples Bank of China make judgments as they attempt to steer their national economies. We will review basic ideas about fiscal policies; how they affect economic activity, both long run, and short run. Finally, we will master a stylized macroeconomic model that captures the interplay between the real economy, fiscal policy, inflation and a stylized Central Bank.

> **Exam #1: "The Economy and the Central Bank in a Finance-Free World'. (40% of your grade)**

Lectures 6 through 11:

You will need to develop an understanding of Financial Markets. You will need to learn basic financial market/real economy interactions. You will master some basic macro theory that is structured to capture the interplay between fiscal policy, central bank policy, financial markets and the real economy. You will come to appreciate the interplay between the real economy, the financial markets, and policy makers.

> **Exam # 2, "The Economy, the Financial Markets and the Central Bank", (50% of your grade)**

(This is a second exam, not a final exam. No Senior option. All take the exam)

Forecasting Tasks:

Each of you will be assigned one of six strategy roles:

*Macro Forecaster, U.S. Labor Economist, U.S. Fixed Income Economist,
China Strategist, European Strategist, Global Commodity Strategist.*

You will each be responsible for two economic barometers, linked to the area of your focus. Class discussions will center on evolving opinion about these variables. That will require you to focus on developments in your area. Each of you should be prepared, weekly, to voice opinion about your area of expertise.

Class participation will be 10% of your grade.

Some Hints About what is to come regarding forecasting approaches:

How to we venture a guess about how things will turn out? John Maynard Keynes stated:

*[We] must study the **present** in the light of the **past** for the purposes of the **future**.*

Thus, we are in the business, in part, of looking at the trends in data, in an attempt to discern patterns. Here is a laundry list of approaches to trend analyses.

1. Divining Trend Trajectories Over Time
   a. 'Mean' model
   b. Random walk, with or without drift
   c. Linear regression
2. Behavioristic models
   a. Consumption function
   b. Housing investment
   c. Corporate profits
3. Full-fledged macroeconomic models
   a. Ray Fair model, Yale University
   b. FRB model
4. Timing of recessions and' if/then' statements

In addition, we need to think more stylistically about macroeconomic dynamics. The list of theoretical models below will appear this semester, in order, as we start simply and add important pieces over the next few months:

1. A heterogeneous agent model that reveals that *leverage* affects equilibrium prices: John Geanakoplos.
2. A bond trader's hydraulic Keynesian model.
3. A macro model without finance: Carlin/Soskice.
4. An overlapping generations model as a key to real GDP/real interest rate connections: Paul Samuelson.
5. A Wicksell/Minsky macro model with finance center stage: Barbera/Weiss
6. A macro framework that accepts that *disparate confounding dynamics* consistently disrupt *normal* cyclical trends: Faust/Leeper

Some comments on the grades in this course.

Anyone sitting in this class has the ability to get a B.
If you are a hard worker, you should shoot for an "A".
If you fumble on both exams and mumble during class discussions, I have no qualms about plumbing the depths of the grade scale.

One last note: The *Art* part of economic forecasting is elusive. During class discussions about the emerging economic scene, an "A" student will impress classmates with her/his flair for the subject at hand. Therefore, the weekly discussions are important. Approach them like taking a foreign language. You cannot cram for French at the end of a semester, if a part of the course requires you to speak French on a weekly basis.

Throughout the semester, we will talk about the "Art" part of economic strategizing. Essentially that involves application of four mental efforts:

- Think logically

- Separate Signal from Noise

- Think Outside the Box

- Stay Humble