COURSE 180.336  
MACROECONOMIC STRATEGIES  

LECTURE 1:  

Good afternoon,  
My name is Bob Barbera, and with the help of Brian Green, I’ll be teaching course 180.336, Macroeconomic Strategies. Class will meet from 1:30 pm to 3:30 pm each Wednesday, in Maryland 114. I plan to lecture for roughly the first hour. We will spend the remaining time in a round table discussion about emerging economic and financial market developments. My office hours, in Wyman 594, are from 10:00 am to 12:00 pm each Wednesday. Brian is available from 2:30 pm to 3:30 pm each Friday in the Greenhouse.  

This course is fundamentally about the business of making sense of emerging economic developments. To get the ball rolling 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 2018. 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 the Johns Hopkins University.  

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 of the big picture underpin the decisions of a great many organizations.
A Roadmap for the Course:

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 develop informed opinions about how key statistics may evolve we need to acquire some sense of proportion, some ideas about the size and growth rates and importance of various economic barometers. And 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 2018. 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, income and 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 and regulatory policies and how they affect economic activity in both the long run and the short run. Finally, we will master a stylized macroeconomic model that captures the interplay between the real economy, inflation, fiscal policy 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, so everyone takes the exam)
Forecasting Tasks:

Everyone is assigned to a five member forecasting team. Each member is responsible for two or three economic barometers. All teams begin with the same forecast. Starting in the third lecture, we will have roundtable discussions. Any student may be asked to comment on emerging economic developments that pertain to their assigned variables. The only way to be prepared to participate is to stay on top of emerging trends.

**Class participation will be 10% of your grade.**

A Super Simple Guide to Forecasting Approaches

How do 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.

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. We will review the list of theoretical models below, in sequence, as we start simply and add important modifications:

1. A heterogeneous agent model that reveals how leverage effects 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
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

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, mumble during class discussions and present little for your presentation, 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 presentations/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 can’t cram for French at the end of a semester, if a part of the course requires you to speak French on a weekly basis.