

# EMBA 8400

## Economic Foundations

Spring 2008

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### Course Objective

This is a practical course that will prepare students to better comprehend the current economic environment, where the forces of globalization interact with technology. Needless to say, understanding the economic consequences of these changes is critical to the success of the firm and its manager. Both economic theory and common sense will be used to demonstrate how business professionals can interpret information about the economy and use it in their working environment. The goal is for EMBA graduates to understand how things work in a modern economy by interpreting data signals and the interaction of different “micro” sectors that make up the “macro” or big picture. This is expected to help the executive make intelligent business decisions in the rapidly-changing business cycle environment. A secondary objective of the course is to provide students with the tools to critically evaluate and interpret articles in the popular financial press, such as *The Wall Street Journal*, *The Economist* and *Business Week*.

The first part of this course (first 2 lectures) establishes the important concepts from microeconomics that are essential for understanding the macroeconomic issues. The focus is on production functions, profit and cost structure, all of which are illustrated by an industry analysis exercise. The second part of the course (lecture 3) introduces basics of macroeconomics, which are demonstrated with the help of a simple macroeconomic forecasting model (lectures 4, 5) developed specifically for this course. *The course ends with the group presentations on specific industry/firm scheduled on Saturday, February 2, 2008 (lecture 6). The Final Exam is a take home and is due on Friday, February 15, 2008.* You also have an opportunity to earn **bonus points** by attending the Economic Forecasting Center’s Quarterly Conference to observe real-life application of economics on **Wednesday, February 27, 2008**, and doing an assignment based on the conference presentations.

### Instructor Information

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### Teaching Assistant Information

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### Course Materials

Assigned chapters and articles should be read before coming to class each week.

Text book: *Principles of Economics*, by N. Gregory Mankiw, 4<sup>th</sup> Edition, 2007

Reading Packet: *Guide to the Macroeconomic Model* by Rajeev Dhawan (mimeo), plus relevant pieces published in magazines and newspapers such as *Business Week*, *Fortune*, *Financial Times*, *Newsweek*, *The Economist*, *The Wall Street Journal*, etc, will also be utilized

Lecture Notes: Lecture Notes (PowerPoint slides) will be available on the course website: <http://www.rdhawan.com/emba>

## **Grading Policy:**

Grades for this course will be based on 2 quizzes, group presentations and a final exam. The distribution of weights will be as follows:

**50% 2 Quizzes\* (in class)**

- Multiple choice and short answer questions.

**\*Chapters & schedule:**

Quiz #1: (Lecture #3) Fri., Jan 18 - Chapters 1, 2, 4, 5, 6, 13 and 14

Quiz #2: (Lecture #5) Fri., Feb 1 - Chapters 23, 24, 26, 28, 29 and 30

**25% Group Presentations on a Selected Industry**

- Details of the group presentation will be given out in Lecture 1 (Fri., Jan 4)
- In-class presentations on Lecture 6 (Sat., Feb 2)

**25% Final Exam (take home – due Friday, Feb 15)**

**Macroeconomic Model Exercises**

The model is introduced in Lecture 4 (Sat., Jan. 19). Exercises based on real life experiments will be given in the following weeks

**25% Bonus**

**Attendance of the Robinson Economic Forecasting Center's Quarterly Conference on Wednesday, Feb. 27, 2008.** Please make plans in advance to attend.

**Academic Honesty:** I will adhere to Georgia State University's policy on academic honesty as published in the Faculty Handbook and in On Campus: The Student Handbook. "Both the ideals of scholarship and the need for fairness require that all dishonest work be rejected as a basis for academic credit. They also require that students refrain from any and all forms of dishonorable or unethical conduct related to their academic work."

For details refer this link: <http://www.gsu.edu/~wwwfhh/sec409.html>

## COURSE OUTLINE

### **MICROECONOMICS**

#### **LECTURE 1 (Friday, Jan. 4<sup>th</sup>, 2008. From 8:00 A.M. to 12:15 P.M.)**

*Topic: Basics of Economics & Elasticity*

- 10 Principles of economics (Ch.1)
- Review the concepts of fixed cost and opportunity cost (Ch. 1)
- Demand and Supply (Ch. 4)
- Concept of elasticity and their applications (Ch. 5)

*Readings: Chapters: 1, 4, 5 and articles for the week*

#### **LECTURE 2 (Saturday, Jan. 5<sup>th</sup>, 2008. From 8:00 A.M. to 12:15 P.M.)**

*Topic: Control on prices, Production & Profits*

- Controls on prices (Ch. 6)
- Production functions & productivity (Ch. 2)
- Measurement of costs & profits (Ch. 13 & 14)
- Applications to the Airline Industry with special emphasis on 9/11 (lecture notes)

*Readings: Chapters: 2, 6, 13 & 14 and articles for the week*

### **MACROECONOMICS**

#### **LECTURE 3 (Friday, Jan. 18<sup>th</sup>, 2008. From 1:15 P.M. to 5:30 P.M.)**

**>> Quiz #1: First 30 mins of Class (Based on Lecture 1&2: Microeconomic Topics)**

*Topic: Basics of Macroeconomics - I*

- Definition of GDP and basics of NIPA accounting (Ch. 23)
- Measurement of Business Cycles (lecture notes)
- How / where to get data and what does it means (lecture notes)
- Consumer price index & inflation (Ch. 24)

*Readings: Chapters: 23, 24 and articles for the week*

### **THE MACROECONOMIC MODEL**

#### **LECTURE 4 (Saturday, Jan. 19, 2008. From 1:15 P.M. to 5:30 P.M.)**

**>> Distribution of Final Exam <<**

*Topic: Basics of Macroeconomics – II & Economic Forecasting I*

- Savings, Investment & Deficits (Ch. 26)
- Modern labor market behavior and movement of labor (Ch. 28 & Lecture notes)
- Monetary System: meaning of money, Alan Greenspan, Money Multiplier (Ch. 29)
- Money, Growth and Inflation (Ch. 30)

- Basics principles of forecasting: What is it and why we need it (lecture notes)
- Develop and analyze the basic model's behavioral sectors
- **Macroeconomic Model – Demo**
  - *About*
  - *Instructions to use*
  - *Exercises*

Readings: Chapters: 26, 28, 29, 30 and articles for this week & *Guide to Macroeconomic Model (mimeo)* and articles for the week

**LECTURE 5 (Friday, Feb. 1, 2008. From 8:00 A.M. to 12:15 P.M.)**

**>> Quiz #2: First 30 mins of Class (Based on lectures 3&4: Basics of Macroeconomics & Economic Forecasting Principles)**

Topic: *Economic Forecasting II*

- **Macroeconomic Model – Exercises**
- Policy Experiments
  - *Inflation Policy*
  - *Fiscal-Stimulus Policy*
  - *Neutral-Budget*
  - *Stop and Go Experiment*
- Additional Simulation exercises
- Group Exercises using the macroeconomic model
- Limitations related to use of model

Readings: *Guide to Macroeconomic Model (mimeo)* and articles for the week

**LECTURE 6 (Saturday, Feb. 2, 2008. From 1:15 P.M. to 5:30 P.M.)**

**>> *Group presentations in class* << 20 mins of group presentation, followed by 7 mins of Q&A.**

**Friday, Feb. 15, 2008 (From 1:15 P.M. to 5:30 P.M.)**

**>> *FINAL TAKE-HOME EXAM DUE* <<**

**FIELD TRIP (Wednesday, February 27, 2008)**

*Robinson Economic Forecasting Center's Quarterly Conference\**

Location: GSU Student Center Auditorium

Time: 8:00 am–12:00 pm

For more information and directions, please visit:

<http://robinson.gsu.edu/efc/conferences/index.html>