PEPPERDINE UNIVERSITY
THE GEORGE L. GRAZIADIO
SCHOOL OF BUSINESS AND MANAGEMENT

PROFESSOR MARSHALL NICKLES
MBA 698.41
GLOBAL AND MACROECONOMIC ENVIRONMENT
Fall 2005
MONDAYS
6:00 PM – 10:00 PM
ORANGE COUNTY CENTER

SYLLABUS
MBA 698.41  
GLOBAL AND MACROECONOMIC ENVIRONMENT  
Fall 2005

Dr. Marshall D. Nickles,  
Professor of Economics  
Telephone (714) 542-8332  
Fax (714) 541-8797 (e-mail: mnickles@pepperdine.edu)  
Monday-Thursday 9:00am-4:00pm

COURSE PURPOSE

The purpose of this course is to provide a learning experience that will allow you to accomplish the following:

1. To be able to apply macroeconomic theories, concepts and philosophies to domestic and international business decision making.
2. To be able to discuss theories, concepts and philosophies contained in economic and business related journals and contemporary literature.
3. To be able to apply economics to other discipline areas of business; i.e., finance, marketing, investments, policy and strategy, etc.
4. To be able to prepare contingency planning, both in the public and private sectors, by acquiring an awareness of economics.

PEDAGOGICAL APPROACH

The above will be achieved by including lectures, films, computer games and projects, and other learning tools. It is important that we all openly discuss the issues, concepts and applications of materials contained in this course. It is through this process that the subject will come alive and become relevant to our business and private lives.

CLASS REQUIREMENTS

1. All class assignments should be prepared prior to attending class in order to encourage lively discussion of the subject matter.
2. Attendance is important . . . let me know in advance when a missed class is necessary.
3. There will be a MIDTERM EXAM over the core macroeconomic theory and its application.
4. An individual effort that ends in a team presentation of the TRIMESTER PROJECT is required. ALL TEAM MEMBERS MUST ORALLY PRESENT WHAT THEY RESEARCHED.
5. Participation in the macro economic computer simulation games and stock indicator project is required. Unlike the tri-project, not all team members need to present the equity market timing project.
(6) Finally, an individually prepared POSITION PAPER on an assigned topic is necessary.
IMPORTANT: POSITION PAPERS WILL NOT BE RETURNED. PLEASE KEEP A COPY.

(7) Class members need to become familiar with the following Internet Web Addresses:

(How the "URL's" will be used in this course will be discussed in class)

   a) http://www.stls.frb.org/fred/
   b) http://www.bog.frb.fed.us
   c) http://stats.bls.gov
   d) http://www.ny.frb.org/pihome/mktrates/forex10.html

THE ABOVE CLASS REQUIREMENTS ARE MANDATORY FOR EVERY CLASS MEMBER UNLESS SPECIAL ARRANGEMENTS HAVE BEEN MADE.

REQUIRED TEXTS AND BOOKS:

   Macroeconomics  by McConnell & Brue (A)
   Annual Editions: Macroeconomics  2005-2006 Ed. (B)
   Fortune Favors the Bold, by Thurow (C)

GRADING SCALE AND PROCEDURES

A class member needs to attend class regularly, read and complete all assignments (including oral presentations unless special arrangements have been made) and earn the following total percentages out of a MAX of 270 points for a letter grade as follows:

65% are figured individually and can carry grades of F-D, 66-68%=D+ or 1.3 grade points; 69-71%=C- or 1.7 grade points; 72-74%=C or 2.0 grade points; 75-76%=C+ or 2.3 grade points; 77-79=B- or 2.7 grade points; 80-83%=B or 3.0 grade points; 84-85%=B+ or 3.3 grade points; 86-89%=A- or 3.7 grade points; 90-100%=A or 4.0 grade points.

IMPORTANT: AN EXAM NOT TAKEN ON THE SCHEDULE DATE, MAY BE MADE UP WITH A 5-POINTS DEFICIT PER DAY UNTIL TAKEN, UNLESS SPECIAL ARRANGEMENTS HAVE BEEN MADE. THUS A TEST SCHEDULED ON MONDAY BUT MADE UP ON WEDNESDAY WILL HAVE A 90 POINT MAXIMUM VALUE RATHER THAN A POSSIBLE 100 POINTS. TO AVOID THIS DEFICIT, THE EXAM MAY BE TAKEN EARLIER THAN THE SCHEDULED TIME PLEASE SEE ME ABOUT DETAILS IF THE ABOVE SHOULD APPLY TO YOU.
**CLASS REQUIREMENTS BY WEIGHT**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midterm Exam</td>
<td>100 pts.</td>
</tr>
<tr>
<td>Computer Sims</td>
<td>20 pts.</td>
</tr>
<tr>
<td>Position Paper</td>
<td>75 pts.</td>
</tr>
<tr>
<td>Country Risk Project</td>
<td>20 pts.</td>
</tr>
<tr>
<td>Trimester Project</td>
<td>50 pts.</td>
</tr>
</tbody>
</table>

**TOTAL POINTS POSSIBLE FOR CLASS = 270 pts.**

Example of a final grade: (80% x 270 pts. = 216 pts. or a grade of B)

**FURTHER DISCUSSION OF CLASS REQUIREMENTS**

**MIDTERM EXAM** will be designed to draw out your understanding of the core of macroeconomics. This will include the terminology, concepts and applications of the assignments. Mini cases, short essay and problems as well as objective questions will be asked. Material from meetings 1-7 will be included on the midterm exam. The objective questions will come from the readings in (A).

The **TRI-PROJECT** is designed to tie micro and macro economics as well as other areas of business administration together. We want to statistically test the significance of external macro economic variables relative to corporate profitability (ratio analysis). In other words, what are the external drivers that influence the company's profit potential. If we find that certain macro economic indicators affect potential demand for the company's product, income, costs, and profits; then the future estimated direction of those indicators need to be forecasted and used in the development of the company's strategy both domestically and internationally.

**MACRO ECONOMIC COMPUTER SIMULATIONS (SIMS)** are included to give us the opportunity to apply the theory. These exercises are not only educational but fun . . . it allows us to get a feel for what government must consider when preparing public policy that influences the business cycle.

**COUNTRY RISK ANALYSIS** is an effort to study the various risk level for different regions of the world prior to the development of international marketing plans.

**POSITION PAPER** is an exercise in inductive thinking. It will be designed to deal with domestic and international contemporary issues. It can be thought of as a "take home final exam." Directions for the position paper will be handed out in class two week before the paper is due.
EVALUATION PROCESS

Course evaluations are done electronically through eRooms. Evaluations are “loaded” in the eRooms approximately two weeks prior to the end of the term.

Each student enrolled in a course has one opportunity to access the course evaluation (located in the eRoom and identified by an icon) using their student identification number. However, the data is stored using a sequence number. This process affords confidentiality to the student submitting the evaluation.

The student will be notified via the eRoom when the course evaluation is available depending on when it is activated by your professor. Access to the evaluation is achieved by clicking on the “Course Evaluation” icon and following the instructions provided. You must submit your evaluation during the time indicated by your professor.

Please take the time to complete course evaluations. The information you provide will help us to make constant progress in all we offer to our students.

Frequently Asked Questions (FAQs):

1. Is my response confidential? Yes, the information that you supply is logged into the data base utilizing a sequence number for the course. No names are attached to the evaluations.

2. Can the Professor see my evaluation before my final grade? No, once you’ve submitted your evaluation, the data is collected and stored in a data base residing outside of the eRoom. The Professor is given a report without names once the final grades for the class have been submitted. Due to the absence of “handwritten” comments, student identity remains more confidential than the paper forms that students have submitted in the past.

3. Who do I call if I have questions or concerns? Please contact Mary Conradt, Director of Academic Support at 310-568-5505, or mary.conradt@pepperdine.edu.

CONDUCT

“The University expects from all of its students and employees the highest standard of moral and ethical behavior in harmony with its Christian philosophy and purposes. Engaging in or promoting conduct or lifestyles inconsistent with traditional Christian values is not acceptable.

The following regulations apply to any person, graduate or undergraduate, who is enrolled as a Pepperdine University student. These rules are not to be interpreted as all-inclusive as to situations in which discipline will be invoked. They are illustrative, and the University reserves the right to take disciplinary action in appropriate circumstances not set out in this catalog. It is understood that each student who enrolls at Pepperdine University will assume the responsibilities
involved by adhering to the regulations of the University. Students are expected to respect order, morality, personal honor, and the rights and property of others at all times. Examples of improper conduct for which students are subject to discipline are as follows:

- Dishonesty in any form, including plagiarism, illegal copying of software, and knowingly furnishing false information to the University.
- Forgery, alteration, or misuse of University documents, records, or identification.
- Failure to comply with written or verbal directives of duly authorized University officials who are acting in the performance of assigned duties.
- Interference with the academic or administrative process of the University or any of the approved activities.
- Otherwise unprotected behavior that disrupts the classroom environment.
- Theft or damage to property.
- Violation of civil or criminal codes of local, state, or federal governments.
- Unauthorized use of or entry into University facilities.
- Violation of any stated policies or regulations governing student relationships to the University.

Disciplinary action may involve, but is not limited to, one or a combination of the alternatives listed below:

**Dismissal** – separation of the student from the University on a permanent basis.

**Suspension** – separation of the student from the University for a specified length of time.

**Probation** – status of the student indicating that the relationship with the University is tenuous and that the student’s records will be reviewed periodically to determine suitability to remain enrolled. Specific limitations to and restrictions of the student’s privileges may accompany probation.” See page current catalog.

**POLICY ON DISABILITIES**

**Assistance for Students with Disabilities**

The Disability Services Office (DSO) offers a variety of services and accommodations to students with disabilities based on appropriate documentation, nature of disability, and academic need. In order to initiate services, students should meet with the Director of the DSO at the beginning of the semester to discuss reasonable accommodation. If a student does not request accommodation or provide documentation, the faculty member is under no obligation to provide accommodations. You may contact the Director of Disability Services, Lauren Breeding at (310) 506-6500 or through email at: lauren.breeding@pepperdine.edu - See current catalog.
MEETINGS, TOPICS AND ASSIGNMENTS


ASSIGNMENT: Read (C). If (C) is not completed by first meeting, finish it as soon as possible.


ASSIGNMENT: Skim Ch.s 1-2 in (A). Read Ch.'s 5-8 in (A). IMPORTANT: RATIO MATERIAL FOR TRIMESTER PROJECT WILL BE DISCUSSED. In addition, guidelines for the stock/bond project will be discussed.


ASSIGNMENT: Read Ch.'s 9-10 in (A)


ASSIGNMENT: Review Ch.’s. 11-12 in (A).


ASSIGNMENT: Read Ch.'s 13-14 in (A).

MEETING 6: Monetary policy and tools of business cycle control. The effects of money supply changes: A Monetarist view. Monetary vs. fiscal policy. Importance of capital formation and how monetary policy influences it.

ASSIGNMENTS: Read Ch. ’s 15, 17, 18 & 19 in (A).

IMPORTANT: RATIOS ON THE CORPORATION SELECTED FOR THE TRIMESTER PROJECT ARE DUE.
MEETING 7: International Trade, Finance, Growth and developing countries. Read Ch.'s 19-21 in (A), and IN CLASS PRESENTATIONS OF COUNTRY RISK PROJECTS. ASSIGNMENT: Read assigned group articles in (B). Total assigned Art.'s include: 3, 10, 14, 16, 17, 26, 28, 34, 35, 36, 39, 41, 42, 43, 44, & 45. Each group will be assigned some of the above articles. The content in the above articles as well as any other articles in (B) may be used as "footnote" sources for your POSITION PAPER. ASSIGNMENT: Read Ch’s 20, 22 & 23 in (A).

MEETING 8: In class macro economic computer "SIM" played in class - "INFLATION GAME". No special pre-class preparation is necessary. ASSIGNMENT: Review for MIDTERM EXAM and "read over" all assigned articles in (C). (See meeting 11 for group Article assignment).


MEETING 10: In class macro economic computer simulation. The "game" played in class will be a STAGFLATION GAME. Prior to the "game" there will be a presentation of MACRO/WORLD... an "in house" economic forecasting model. ASSIGNMENT: Read Ch.'s 20-21 in (A).

MEETING 11: In class discussion and presentation of your group assigned articles. ASSIGNMENT: Each group needs to read their assigned articles carefully and respond in written form to the “test your knowledge form” on page 206 in (B). Please make copies of your completed form for all class members. These forms are to be discussed orally (“PowerPoint) in class as your group assignments. Group assignments: Group 1 = Art’s 3, 10, 14, 16. Group 2 = 17, 26, 28, 34. Group 3 = 35, 36, 39, 41. Group 4 = 42, 43, 44, 45.

MEETING 12: The changing global environment and implications for American business. MATERIALS FOR POSITION PAPER WILL BE HANDED OUT. Discussion of UCLA’s forecast of U.S. economy for 2005-2006. Forecast to be used in position paper. DETERMINING WHICH FOREIGN COUNTRIES HAVE THE BEST POTENTIAL MARKETS (LOWEST ECONOMIC RISK), USING AN ECONOMIC MATRIX (PROVIDED IN CLASS) FOR SCREENING. ASSIGNMENT: IN CLASS GROUP DISCUSSION OF (C). Group 1 = Ch.’s 1-3, Group 2 = Ch’s 4-6, Group 3 = Ch’s 7-8, Group 4 = Ch’s 9-10.

MEETING 13: In class discussion of individual effort on POSITION PAPER. YOU NEED TO BRIEFLY CONTRIBUTE (IN CLASS) WHAT YOU DID FOR YOUR POSITION PAPER. 1/2 of the period will be given to TRIMESTER PROJECT preparation. ASSIGNMENT: Complete POSITION PAPER. POSITION PAPER IS DUE! Prepare for trimester project.

MEETING 14: In class presentation of TEAM TRIMESTER PROJECTS. EACH PRESENTATION IS TO BE A MAX OF 1 1/2 HOURS. FOR EACH GROUP.
OPTIONAL LOG REQUIREMENT:

Each class member MAY turn in a "LOG" of his/her activities as a team member. More specifically, the log should be brief but contain the following: (1) What your contribution was to the Trimester Project and Country Risk Project. What research you conducted, if any, on the projects. If you did research, list what and where you did it. Log in dates of meetings with other team members, finally (3) list any other activities you engaged in that were not mentioned above . . . The log activity sheet should match what you presented orally for your part of the team projects.

THE TRIMESTER PROJECT

IMPORTANT: THE COMPOSITION OF EACH TEAM SHOULD INCLUDE THE FOLLOWING: A MEMBER familiar WITH BASIC STATISTICS, A PERSON familiar WITH BASIC FINANCIAL RATIOS, AND ONE familiar WITH THE USE OF A STATISTICAL COMPUTER SOFTWARE PROGRAM; i.e., (found in EXCEL for Windows). The purpose is not to encourage each team member to play into his/her strengths, but rather to allow other team members to learn and strengthen their possible areas of weakness.

The purpose of the trimester project is to observe the influence of the macroeconomic environment on business decision making. If one can determine the trend of the economy and find which macroeconomic indicators best correlate with the financial success of a given corporation, the easier it will be to prepare successful business strategies for the future.

REQUIRED STEPS
(Note: Your team is encouraged to ADD to the following steps but not subtract).

1. Try to select a corporation that does most of its business in the U.S., one that relies on a single product for the bulk of its revenue generation, and a company with a stock beta of ABOUT 1.0. Beta for a company can usually be found in Value Line located in the library at the Center. If the beta for your company's stock is above or below a beta of 1.0, it is OK.

2. Each team may want to look into a corporation found in Value Line part 3. Found in OCC Library. This provides very good insight into the studied company and industry.

3. "Fit" your selected company into a microeconomic market structure, i.e., oligopoly, etc. Briefly discuss, as part or your oral class presentation, whether or not past company behavior conforms to the theoretical economic market model, in terms of market conduct and performance. Check your micro economics class notes or a previous microeconomic text for further insight into the above. Another excellent source for an applied review of micro economic theory is American Industry: Structure, Conduct & Performance by Richard Caves or any microeconomics Text. They should be in the OCC Library.

4. PLOT the results of relevant "bottom line" financial ratios of your selected company (annually) back AS FAR AS THE "RETRIEVAL" HAS IN THE DATA BASE, or at least back to 1990, relative to the American Business Cycle. IT IS SUGGESTED THAT YOUR TEAM SECURE THE ANNUAL FINANCIAL RATIOS, ETC. FROM A (DATA RETRIEVAL) AT THE PEPPERDINE CENTER
LIBRARY. The ratios below are suggested, not required. YOUR TEAM IS ENCOURAGED TO SELECT RATIOS THAT BEST REPRESENT YOUR COMPANY’S HEALTH . . . (See financial ratio handout given in class). Your team needs to select at least 2-3 ratios form each broad category in the handout. Ratio category examples are: liquidity, profitability, etc. Ratio examples are: RETURN ON ASSETS, RETURN ON EQUITY, GROSS PROFIT MARGIN, CURRENT RATIO, QUICK RATIO, DEBT/EQUITY RATIO, ASSET TURNOVER RATIO, ASSET/NET WORTH COVERAGE, INVENTORY TURNOVER RATIO, DIVIDEND YIELD RATIO, DIVIDEND PAYOUT RATIO, EARNINGS PER SHARE, PRICE/EARNINGS RATIO, EARNINGS COVERAGE RATIO, STOCK PRICE (YEAR END), DAYS RECEIVABLES, OPERATING PROFIT MARGIN. Check with OCC librarian for a financial data retrieval "on line" system. Dow Jones News Retrieval is a good source for annual ratios and is in the OCC Library. Check with the campus Librarian.

The ratios calculated ANNUALLY for "your" COMPANY need to be compared to NORM INDUSTRY RATIOS found in Dun and Bradstreet or Robert Morris reports. The above "norm" ratios can be found in the center library or any well stocked local library, like Heritage Park Library in Irvine or Newport Public. (A SIC code must be obtained for your company before you can equate your company ratios to those of the industry).

Suggestion: After the team has plotted the above ratios annually...it is suggested that you have 1-2 ratios per page...then superimpose the last economic recession, (vertically identified areas, over each above ratio graphed. This will give you an idea as to how each ratio was influenced by the business cycle, if at all. Visually observe the relationship. Did some of these ratios decline prior to the recession period? You also will want to look at any "time lags". In others words, did it take time for the ratios to react (before or after) the recession got under way?

5. Observe the listing of the Economic Statistical Series: examples include the following: for this project: Gross National Product; National Income; Corporate Profits; Unemployment Rates; Industrial Production; Capacity Utilization; New Construction; Inventories; Consumer sentiment, Consumer Prices; Consumer Installment Credit; 3 Month T Bill Rates; and Dow Jones Industrial Average. YOUR TEAM IS ENCOURAGED TO SELECT OTHER AND OR ADDITIONAL MACRO-ECONOMIC INDICATORS THAT MAY BETTER INFLUENCE THE COMPANY'S FINANCIAL RATIOS STUDIED FOR THE TRI-PROJECT.

THE NEXT STEP IS TO STATISTICALLY COMPARE THE COMPANY'S RATIOS UTILIZED ABOVE TO THE MACRO ECONOMIC INDICATORS. IN OTHER WORDS, YOU WANT TO MEASURE THE DEGREE OF INFLUENCE THE MACRO-ECONOMIC ENVIRONMENT HAS ON YOUR COMPANY'S FINANCIAL "BOTTOM LINE" AND GENERAL STRATEGIC DECISION MAKING. YOUR TEAM WILL USE A STATISTICAL PROGRAM TO RUN CORRELATIONS OR "R" VALUES. USE ANY STATISTICAL PROGRAM YOUR TEAM WOULD LIKE, SUCH AS EXCEL FOR WINDOWS, ETC. IN ANY CASE, TRY TO USE A SPREADSHEET THAT WILL GRAPH THE DATA. EXCEL FOR WINDOWS IS AVAILABLE FOR USE IN THE OCC COMPUTER LAB.

6. SELECT OUT THOSE CORRELATIONS THAT ARE APPROX. .78 OR HIGHER. YOU ARE ONLY INTERESTED IN THOSE ECONOMIC VARIABLES, "X" AXIS OR INDEPENDENT VARIABLES THAT INFLUENCE THE COMPANY RATIOS, "Y" AXIS OR DEPENDENT VARIABLES. AFTER YOUR TEAM HAS DONE THE ABOVE, WE WILL WANT TO FORECAST THOSE HIGHLY CORRELATED ECONOMIC VARIABLES THAT INFLUENCE ON YOUR COMPANY'S RATIOS (USE THE LATEST UCLA ECONOMIC FORECAST TO FORECAST THE
ECONOMIC INDICATORS THAT WERE FOUND MOST SIGNIFICANT IN YOUR STUDY). THE OUTCOME SHOULD BE OF VALUE TO MANAGEMENT IN MAKING STRATEGY BUSINESS DECISIONS, OVER THE NEXT 1-2 YEARS.

7. Secure the latest UCLA economic forecast (check at reference desk at OCC library). Note the forecast of the economic variables (found in the UCLA forecast) that correlated highly with your selected company ratios, for the next 1-2 years; THEN ANSWER THE FOLLOWING (PART OF IN CLASS ORAL PRESENTATION): How could the company studied benefit from understanding the above relationships? ALSO PRESENT IN CLASS: A GENERAL ECONOMIC FORECAST for the next year (SEE "UCLA FORECAST: 2005 FORECAST) see (OCC library reference desk) and in particularly those economic indicators that were highly correlated to your company's ratios see (UCLA ECONOMIC FORECAST).

8. PART (8) IS ALSO PART OF THE ORAL PRESENTATION): Study the findings noted in steps 1-7 above . . . then reflect on the significance, of what you found, for the management of the company studied for the next 12-24 months. SPECIFICALLY ANSWER the following (this is to be presented orally for your trimester project); based on the ratio analysis and expected influence of the economy on the ratios studied, determine if your company: (1) Should have increased profits for the next 12 months, (2) will have sufficient cash (liquidity) to pay the bills for the next 12 months, without a need to borrow? (3) will operate efficiently for the next 12 months, (4) is your company positioned to compete within the industry and globally, (5) will your company will be an attractive investment (fundamentally) for the next year, i.e., would your team recommend the purchase of the company stock? (6) Based on your study, recommend an aggressive marketing plan for your company, both domestically and internationally.

IMPORTANT: Remember, ALL team members MUST orally present the work THEY researched (NOT ANOTHER TEAM MEMBER'S), for the trimester oral project.

11. HARD COPY REQUIREMENT: Each team needs to turn in the following in typed form: (1) An executive summary with a cover page. The cover page must include the full names of all the people on your team. The summary also needs to contain a brief paragraph of what each team member did toward the total contribution of the trimester project (a brief paragraph written for each team member), (2) The executive summary also needs to include brief answers to all end project questions; i.e., (see item 8 above), and (3) A copy of the computer run for the correlations must be included.

12. Please remember that this is an economic class . . . which means that the trimester project presentation must be couched within the economics discipline. In sum, think of economics as a business tool that can allow you to make better strategic business decisions. Thus, the presentation must be presented from an economics perspective.

Finally, when your team makes their oral presentation, each of the above sections (1-12) must be individually addressed and presented!

I hope this course is significant to your professional education as well as personally useful and fun. I will do all I can to make your experience at Pepperdine rewarding.

Marsh Nickles,
Professor of Economics