

Central Banks, Macroeconomic Policy and Financial Markets
FNCE 7400
Fall 2025

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Distinguished Guest Speakers

Alp Ercil (Founder and CIO, ARCM)
Patrick Harker (former President, FRB Philadelphia)
Frank Smets (Head of Economic Analysis, BIS)
Amir Yaron (Governor, Bank of Israel)

Teaching Assistants

Alina Song: songjj@wharton.upenn.edu
Jiacheng Li: jl10727@wharton.upenn.edu
Renan Muta: renanm@wharton.upenn.edu
Wednesday 5:00-6:00 pm ([Zoom](#))
Meeting ID: 920 3345 5343
Password: 124085

Course Overview

Description

Macroeconomic events and policies play a crucial role in driving financial market performance over time. This is an advanced course in applied macroeconomics that discusses both how macroeconomic policy works today and how it impacts the broad economy and financial markets. It is assumed that students have a good knowledge of *intermediate* undergraduate macroeconomic analysis and at least a *basic* understanding of the key financial market indicators.

The first half of the class focuses on **understanding and predicting Central Banking decision making and how monetary policy is conducted today**. We provide the methods and knowledge on how central bankers think and implement policies to reach the goals of price and financial stability as well as support of growth and employment. The core of this section connects economic knowledge, legal frameworks and the goals and methods followed by central banks. **We explain the rationale for the policy prescriptions implemented today mainly by the Federal Reserve Bank (Fed) in the US** as well as by the European Central Bank (ECB), Bank of Israel (BOI), Bank of Japan (BOJ) and some other major countries. We discuss current events such as the rise of inflation and the risk of a recession as major central banks normalize monetary policy and forecast

upcoming central banks' policy decisions based on current data and the latest theory. We will also attempt to draw lessons from the aftermath of the 2008 financial crisis and the 2020 Covid crisis.

The second half studies macroeconomic policy more broadly as well as how financial markets process macroeconomic events and policy announcements. We discuss the impact of recent fiscal stimulus programs in major economies, their impact on inflation and the challenges posed by the high levels of government debt we inherited. We conclude the course by connecting the key macroeconomic policies and quantities to bond and stock market valuations. Students will estimate the impact of key macro developments and assess their implications for bond and equity valuations. The second half will also feature a number of distinguished guest speakers.

Prerequisites

This course assumes students have a solid knowledge of intermediate macroeconomics, or similar, principles of finance and some basic regression analysis. Students must either have completed FNCE 6130 or obtained approval for its replacement. Requests to use this class to replace FNCE 6130 **must have been approved in advance** by the MBA Program office.

Meeting Information

Class Times

Tuesday and Thursday: 08:30-10:00 AM SHDH 213 (Section 7400.1) and 10:15-11:45 AM SHDH 213 (Section 7400.2). Guest speakers are often available to talk to *only one session* over Zoom. All guest lectures will be **recorded** and available on Canvas for future review and study.

Class Structure

Most of our classes are in lecture format and will **start with a class discussion of the latest news** or data related to the class. Our main sources will be the *Financial Times*, *The Wall Street Journal*, *The Economist* and *Bloomberg*. Readings will usually be shared for online discussion on the day before class.

Most **guest lectures** start with a presentation by our distinguished speaker, followed by student Q&A. All guest lectures will be recorded and posted on Canvas.

Four classes are primarily dedicated to discussing the extended Assignments. Assignments are to be done in teams and submitted on Canvas. You can use ChatGPT or another AI tool to help you with assignments but should come prepared for the class discussion.

Students are **expected to contribute** actively to class discussions, especially during assignments and guest lectures. Even if you cannot attend a class for health or family emergency reasons, you should still participate in follow up online discussions. Class attendance and active participation in discussions will **count heavily towards your final grade.**

Classroom Safety

The precise **classroom safety rules** will conform with the latest guidance from Penn and the city of Philadelphia. Masks are optional.

Requirements and Grading

The final course grade will be calculated as follows:

- **Participation:** in class plus online discussions (35%)
- **4 Team Assignments:** teams of 3-4 students (30%)
- **Final Quiz:** covering the guest speakers' presentations (35%)

Course Materials

Because this is an advanced class that discusses real-time events there is no suitable textbook. Most of our references below provide supportive information but ***are not required*** to follow the class material. They include a few useful chapters or sections from some (text) books, as well as reports, lectures and several recently published articles on each of the topics. We will **provide all necessary readings and data for the assignments**. Slides, further readings and assignment materials can be found on Canvas.

Penn provides free online subscriptions to several major financial publications ([*Financial Times*](#), [*Wall Street Journal*](#), [*New York Times*](#)) and we strongly recommend you take advantage of them to be able to link to any web articles we will post from those publications.

In addition, Yardeni Research (<https://www.yardeni.com>) provides incredibly detailed content on financial markets and the macroeconomy. It is freely available and updated daily.

Background Reference:

- Andy A. Abel, Ben S. Bernanke and Dean Croushore, *Macroeconomics* (11th edition) Pearson. (ABC)

Tentative Schedule

1. Covid-19, the Great Financial Crisis and Central Banks Intervention (Aug. 26)

Readings

Optional background:

- ABC, pp. 568-574.
- The Economist, "[Central Banks: The Danger of Excessive Distraction](#)", 2022.

2. Inflation and Interest Rates: Foundations (Aug. 28)

Main Question: What are the optimal long run targets for inflation and nominal interest rates?

Readings

Priority:

- FOMC, [Statement on Longer-Run Goals and Monetary Policy Strategy](#), Adopted January 24, 2012; as reaffirmed effective August 22, 2025.
- Jerome H. Powell, "[New Economic Challenges and the Fed's Monetary Policy Review](#)", Jackson Hole, Wyoming, August 27, 2020. Also on [Video](#)
- Jerome Powell, "[Monetary Policy and the Fed's Framework Review](#)" Jackson Hole, August 22, 2025.
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Optional background:

- ABC, pp. 63-248; 248-252; 263-270; 276-278; 474-481

Optional additional:

- The Economist, "[Central-bank digital currencies are talked about more than coming to fruition](#)", 2023.
- The Economist, "[A new era of economics: starting over again](#)", 2020
- Ben S. Bernanke, "[The Non-Monetary Effects of the Financial Crisis in the Propagation of the Great Depression](#)", *American Economic Review*, Vol. 73(3), 1983, pp. 257-276.
- Robert, E. Lucas Jr, "[Inflation and Welfare](#)", *Econometrica*, Vol. 68(2), 2000, pp. 247-274.
- Thomas, S. Sargent, "[The End of the Four Big Inflations](#)", in *Inflation: Causes and Effects*, Robert E. Hall (editor), University of Chicago Press, 1982.

3. The Taylor Rule: How do Central Banks Conduct Monetary Policy? (Sep. 2 & 4)

Main Question: How is the short-term interest rate determined?

Readings

Priority:

- Ben S. Bernanke, "[Monetary Policy and the Housing Bubble](#)", speech at the American Economic Association, 1/2010
- Ben S. Bernanke, (4/28/2015), "[The Taylor Rule: A Benchmark for Monetary Policy?](#)", Brookings.

- John Taylor, “[The Financial Crisis and the Policy Responses: An Empirical Analysis of what Went Wrong](#)”, keynote speech, 2008.

Optional background:

- ABC, pp. 542-582

Optional additional:

- The Economist, “[Inflation shows the value and the limit of monetary-policy rules](#)”, 2022.
- John Taylor, “[Discretion Versus Policy Rules in Practice](#)”, in *Carnegie-Rochester Conference Series on Public Policy*, 39, 1993, pp. 195-341.
- John, B. Taylor, “[Monetary Policy Rules Work and Discretion Doesn’t: a Tale of Two Eras](#)”, *The Journal of Money, Credit and Banking*, vol 44(6), pp. 1017-1032. 2012.

DUE: Sep. 4 - Presentations and discussion of Assignment 1.

Was the Fed federal funds rate too low before 8/2007 and after 10/2008?

4. Monetary Policy and the Yield Curve (Sep. 9)

Main question: How does monetary policy impact government yields?

Readings

Priority:

- Federal Reserve Bank of Cleveland, “[Yield Curve and Predicted GDP Growth](#)”, 2022
- The Economist, “[Yield Curves help Predict Economic Growth Across the Rich World](#)”, 2019

Optional additional:

- SIFMA, [Capital Markets Fact Book](#)

5. Policy at the Zero Lower Bound for Interest Rates (Sep. 11 & 16)

Main question: Is monetary policy effective at the zero lower bound or with negative interest rates?

Readings

Priority:

- Ben S. Bernanke, “[The Crisis and the Policy Response](#)”, At the Stamp Lecture, London School of Economics, 2009; Also Jackson Hole speech 2009.
- Bernanke, Ben, S. “[Monetary Policy in New Era](#)”, Peterson Institute for International Economics, 2017.
- Kenneth Rogoff, “[The Case for a Deeply Negative Interest Rate](#)”, Project Syndicate, 2020.

Optional background:

- ABC, pp. 569-573, 620

Optional additional:

- The Economist, “[The Perils of Expanded Balance-Sheets](#)”, 2022
- Arvind Krishnamurthy and Annette Vissing-Jorgensen, “[The Effect of Quantitative Easing Policies on Interest Rates: Channels and Implications for Policy](#)”, Brookings Papers on Economic Activity, 2011.

DUE: Sep. 16: Presentations and discussion of Assignment 2

Simulation and discussion of the FOMC decision of 9/17. The Fed monetary policy since March 2020 and what is expected for the future.

6. Flexible Inflation Targeting Policy: Theory and Practice (Sep 18 & 23)

Main question: What is the theory and practice of modern monetary policy analysis?

Readings:

Priority:

- Zvi Eckstein: [Notes on the DSGE model](#)

Optional background:

- ABC, 160-167; 170-175; 339-342; 441-443; 490-497; 518-527

Optional additional:

- John Williams, “[Measuring the Natural Rate of Interest: Past, Present and Future](#)”, Board of Governors, May 2023.
- Jordi Gali, “[The State of New Keynesian Economics: A Partial Assessment](#)”, *Journal of Economic Perspectives*, Vol. 32(3), pp. 87–112.
- Lawrence J. Christiano, Martin S. Eichenbaum, and Mathias Trabandt. “[On DSGE models](#)”, *Journal of Economic Perspectives*, Vol 32(3), pp. 113–140.

7. The Current Outlook for the U.S. Economy and Monetary Policy (Sep 25)

Main Question: What is the Near-term Outlook for the U.S. economy?

Guest speaker: Patrick Harker (Former President, Federal Reserve Bank of Philadelphia)

NOTE: 8:30-10:00 AM session only

8. The ECB New Monetary Strategy, The Debt Crisis and Current Policy (Sep 30)

Main Question: How do fiscal and monetary policy interact and affect financial stability?

Readings

Priority:

- ECB, [The ECB New Monetary Strategy](#), July 8, 2021.
- Mario Draghi, “[Whatever it Takes](#)”, speech on 7/26/2012.
- Mario Draghi, “[Unemployment in the Euro Area](#)”, speech at Jackson Hall, 8/2014.

Optional background:

- ABC, 604-627

Optional additional:

- The Economist- [The ECB's Masterplan to Manipulate markets](#) 7-16-2022.
- The Economist - [How higher interest rates squeeze government budgets - 7-16-2022.](#)

DUE: Sep 30: Presentations and discussion of Assignment 3.

Simulation of the next ECB monetary policy decision. Does ECB policy under Mario Draghi and Christine Lagarde follow a Taylor rule or only the goal of “price stability”?

9. Fiscal Policy, Growth and Inflation (Oct. 2)

Main question: How does fiscal policy affect inflation and economic growth?

Readings

Priority:

- Charles Whalen and Felix Reichling, [The Fiscal Multiplier and Economic Policy Analysis in the United States](#), Congressional Budget Office working paper, 2015

Optional additional

- Brookings Institution, [Hutchins Center Fiscal Impact Measure](#)
- Moody's Analytics, [Global Fiscal Policy in the Pandemic](#), 2022
- Valery Ramey, "[Ten Years After the Financial Crisis: What Have We Learned From the Renaissance in Fiscal Research?](#)" *Journal of Economic Perspectives*, 33(2): 89–114, 2019.

10. The Macro Outlook in Japan and the BOJ policy shift (Oct. 21)

Guest Lecture: Alp Ercil (CEO, *Asia Research and Capital Management*)

Main question: What are the macro challenges facing policymakers in Japan?

11. The Macro Outlook in China (Oct. 23)

Guest Lecture: Alp Ercil (CEO, *Asia Research and Capital Management*)

Main question: What are the macro challenges facing policy makers in China?

12. The Current Markets Outlook (Oct. 28)

Guest Lecture: Alp Ercil (CEO, *Asia Research and Capital Management*)

Main question: What is the current outlook for global markets?

13. Long Run Fiscal Challenges (Nov. 9)

Main question: What are the causes and effects of a fiscal crisis? What is the likelihood of a fiscal crisis in the US?

Readings

Priority:

- Congressional Budget Office, [US Long Term Budget Outlook](#), 2025.
- Olivier Blanchard, "[Public Debt and Low Interest Rates](#)", *American Economic Review*, 2019.

Optional additional

- Penn Wharton Budget Model, [Major Budget Reduction Options](#), 2024
- Carmen M. Reinhart and Kenneth S. Rogoff, "[Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten](#)", IMF Working Paper, 2013

14. The Monetary Policy Outlook in Europe and Israel (Nov. 4)

Guest lecture: Professor Amir Yaron (Governor, Bank of Israel)

Main question: How different is monetary policy in open economies? Should it include exchange rate intervention?

NOTE: 8:30-10:00 AM session

Guest lecture: Dr Frank Smets (Bank for International Settlements)

Main question: What is the macroeconomic outlook and the monetary policy framework for the Eurozone

NOTE: 10:15-11:45 AM session

15. Credit Markets and Macro Risk (Nov. 11)

Main question: How do credit markets respond to macroeconomic events and policy shocks?

Readings

Priority:

- Arvind Krishnamurthy and Annette Vissing-Jorgensen, “[Aggregate Demand for Treasury Debt](#)”, *Journal of Political Economy*, vol 120(2), 2012, pp. 233-267.

Optional additional

- Gilchrist, Simon, and Egon Zakrajšek. 2012. “[Credit Spreads and Business Cycle Fluctuations](#)”, *American Economic Review*, 102 (4): pp. 1692-1720.

16. Equity Markets and the Macroeconomy (Nov. 13 & 18)

Main Questions: How do macro variables and policies impact stock valuations?

Readings

Priority:

- Roger Ibbotson and James Harrington, [Stocks, Bonds, Bills and Inflation \(SBBI\) Summary Edition](#), CFA Institute 2021
- Yardeni Research, [Predicting Valuation](#)

Optional additional

- Kevin Lansing, “[Stock Market Valuations and the Macroeconomy](#)”, San Francisco Fed, 2017
- Jeremy Siegel, “[Stocks for the Long Run](#)”, 6th edition, McGraw-Hill, 2023

DUE: Nov 18 Presentation and discussion of Assignment 4.

Is the US stock market overvalued?

17. Macro Mega Trends for Investors (Nov. 20)

Main Questions: How will macro trends impact the key asset classes?

Readings

Priority:

- Wall Street Journal, “[The Trusted 60-40 Investing Strategy Just Had Its Worst Year in Generations](#)”, 2023

Optional additional

- Xiang Fang, Yang Liu and Nikolai L. Roussanov, “[Getting to the Core: Inflation Risks Within and Across Asset Classes](#)”, working paper, Wharton School, 2022

18. Summary and Conclusion (Dec. 2)

Summary of guest speaker presentations and reflection on the course's main themes.

DUE: Dec 4 FINAL QUIZ

Ethics Matrix

	Materials							People				
FNCE 7400 Central Banks, Macroeconomic Policy and Financial Markets	Calculator	Laptop / other electronics	Summary sheet	Textbooks / Class Notes	Past notes / summaries	Past exams / problems	Internet content / other outside materials	Group of 3-4	Other student(s) in same section	Student(s) in other sections (same term)	Wharton student not taking the class this term	Person outside of Wharton
Assignments	A	A		A			A	W	D	D	D	D
Final Quiz Preparation	A	A	A	A	A	A	A	W	W	W	D	D
Final Quiz	A	A	A									
	A = Allowed material Shaded Cell = Not allowed							W = Allowed to work together D = Discussion of general concepts and procedures is allowed but no sharing of specific answers. Shaded Cell = Not allowed				
<p>The information above covers many common situations but probably not every circumstance. Remember: the Wharton Code of Ethics that you accepted requires, among other things, that you represent yourself and your work honestly, do not try to gain unfair advantage over other students, follow the instructor's guidelines and respect confidentiality of your work and that of others. Should you have questions, please contact your professor.</p>												