UBC SAUDER
SCHOOL OF BUSINESS

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BUSI 101 Capital Markets and Real Estate

PURPOSE AND SCOPE

The *Capital Markets and Real Estate* course (BUSI 101) is intended to acquaint the student with the basic principles of macroeconomics and to give them the tools necessary to apply these principles to situations within real estate markets.

After reading the text and completing the lessons and assignments found in the course workbook, the student should have a basic understanding of macroeconomic concepts. Listed below are general objectives for what a student should learn from this course:

- Understand and explain why, for the economy as a whole, total income equals total expenditures.
- Understand and explain the four major components of GDP.
- Understand the relationship between nominal GDP, real GDP, and the GDP deflator.
- Understand why productivity is the key determinant of living standards.
- Understand how a country=s policies influence its productivity growth.
- Understand the concept of the catch-up effect and how it relates to diminishing returns.
- Understand why savings and investment matter for long-run economic growth.
- Understand how government budget deficits and surpluses affect the Canadian economy.
- Understand the nature and functions of money.
- Understand the role of the Bank of Canada.
- Understand how money is created with fractional-reserve banking.
- Understand how the money supply can expand or contract without any actions being taken by the Bank of Canada.
- Understand the main problems the Bank of Canada faces in controlling the money supply.
- Understand the three ways that CPI can misrepresent actual changes in consumers= cost of living.
- Understand why inflation results from a rapid growth in the money supply.
- Understand the meaning of classical dichotomy and monetary neutrality.
- Understand how velocity and quantity equations can help us analyze the quantity theory of money.
- Understand what causes a country to experience hyperinflation.
- Understand why differences in opportunity costs are the foundation of comparative advantage.
- Understand and recognize how comparative advantage forms the basis upon which specialization and exchange benefit trading partners.
- Understand the relationship between saving, domestic investment, and net foreign investment.
- Understand purchasing-power parity with respect to real exchange rates.
- Understand how local interest rates are determined in a small open economy with perfect capital mobility.
- Understand how an open economy=s trade balance and exchange rate are determined.
- Understand the effects on the economy of government changes in budget deficits and trade policies.
- Understand how economic performance in the short-run differs from long-run economic behaviour.
- Understand the operations of the aggregate demand/aggregate supply model of the economy.
- Understand how liquidity preference theory can be used as a short-run explanation for the determination of interest rates.

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- Understand how monetary and fiscal policy affects interest rates and aggregate demand in open and closed economies.
- Understand the crowding-out effect on investment.
- Understand the five important topics and issues that confront policy-makers:
- discretionary stabilization policy
- implementing monetary policy by rule or by discretion
- attaining a goal of zero inflation
- reducing the government debt
- reforming the tax laws to encourage more saving

LESSON 1 – National Income Accounts

1. Explain why, for the economy as a whole, total income equals total expenditures.
2. Define and calculate Gross Domestic Product (GDP).
3. Explain the four major components of GDP.
4. Discuss the difference between real GDP and nominal GDP.
5. State the relationship between nominal GDP, real GDP, and the GDP deflator.
6. Recognize the difference between GDP as a measure of output and as a measure of economic well-being.

LESSON 2 – Production and Growth

1. Describe how economic growth is unequal among major countries.
2. Discuss why productivity is the key determinant of living standards.
3. Describe the factors that influence a country's productivity.
4. Explain how a country's policies influence its productivity growth.
5. Apply the concept of diminishing returns to the production process.
6. Explain the concept of the catch-up effect and how it relates to diminishing returns.

LESSON 3 – Saving, Investment, and the Financial System

1. Describe some of the important financial institutions in the Canadian economy.
2. Explain the relationship between financial markets and key macroeconomic variables.
3. Analyze the market for loanable funds using supply and demand.
4. Explain why real interest rates are more important than nominal rates for balancing aggregate savings and investment.
5. Discuss why savings and investment matter for long-run economic growth.
6. Explain how various government policies affect the loanable funds market.
7. Explain how government budget deficits and surpluses affect the Canadian economy.

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LESSON 4 – The Monetary System

1. Describe the nature and functions of money.
2. Define commodity money and fiat money.
3. Explain the role of the Bank of Canada.
4. Examine how money is created with fractional-reserve banking.
5. Illustrate how the money multiplier operates.
6. Examine the tools used by the Bank of Canada to alter the money supply: open-market operations, reserve requirements, and the bank rate.
7. Describe how the money supply can expand or contract without any actions being taken by the Bank of Canada.
8. Explain the two main problems the Bank of Canada faces in controlling the money supply.

LESSON 5 – Inflation: Causes and Measurement

1. Describe how the consumer price index (CPI) is constructed.
2. Explain the three ways the CPI can misrepresent the actual changes in consumers' cost of living.
3. Compare the similarities and differences between the CPI and the GDP deflator as measures of the overall price level.
4. Use the CPI to measure the "real" change the prices of individual goods, incomes, and production over time.
5. Explain how to use the CPI to distinguish between real and nominal interest rates.
6. Describe how inflation is a decline in the value of money.
7. Explain why inflation results from a rapid growth in the money supply.
8. Discuss the meanings of the classical dichotomy and monetary neutrality.
9. Explain how the velocity and the quantity equations can help us analyze the quantity theory of money.
10. Examine what causes a country to experience hyperinflation.
11. Examine how the nominal interest rate responds to the inflation rate.
12. Consider the various costs and consequences of inflation.

LESSON 6 – Gains from International Trade

1. Explain how everyone can benefit from voluntary trade.
2. Define absolute and comparative advantage.
3. Discuss why differences in opportunity costs are the foundation of comparative advantage.
4. Recognize how comparative advantage forms the basis upon which specialization and exchange benefit trading partners.
5. Apply the theory of comparative advantage to everyday life and national policy.

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LESSON 7 – International Trade, Investment, and Exchange Rates

1. Discuss how the international flow of goods and services is measured by net exports.
2. Discuss how the international flow of capital is measured by net capital outflow.
3. Explain why net exports must always equal net capital outflow.
4. Explain the relationship between saving, domestic investment, and net capital outflow.
5. Recognize the difference between the nominal exchange rate and the real exchange rate.
6. Explain the law of one price and its limitations.
7. Describe how purchasing-power parity is a theory of real exchange rates.
8. Explain how local interest rates are determined in a small open.

LESSON 8 – Macroeconomic Theory in an Open Economy

1. Build a model to explain an open economy's trade balance and exchange rate.
2. Analyze the effects of government changes in budget deficits on the economy.
3. Analyze the effects of trade policies on the economy.
4. Use the model to analyze how political instability can lead to capital flight.

LESSON 9 – Economic Fluctuations: Balancing Aggregate Demand and Supply

1. Explain that short-run economic fluctuations are irregular and unpredictable, that most macroeconomic variables fluctuate together, and that there is an inverse relationship between output and unemployment.
2. Explain how economic performance in the short-run differs from long-run economic behaviour.
3. Explain why the aggregate demand curve slopes downward.
4. Describe the factors that cause the aggregate demand curve to shift.
5. Explain why the aggregate supply curve is vertical in the long-run.
6. Explain what causes the long-run aggregate supply curve to shift.
7. Explain why the aggregate supply curve slopes upward in the short-run.
8. Explain what causes the short-run aggregate supply curve to shift.
9. Use the model of aggregate demand and aggregate supply to explain economic fluctuations.
10. Use the model of aggregate demand and aggregate supply to show booms and recessions.

LESSON 10 – Economic Fluctuations: Effects of Fiscal and Monetary Policy

1. Explain the liquidity preference theory and its role in determining the money demand curve.
2. Describe how equilibrium occurs in the money market.
3. Analyze how monetary policy affects interest rates, aggregate demand, and output in a closed economy.
4. Analyze how monetary policy affects interest rates, aggregate demand, and output in an open economy, with either a flexible or fixed exchange rate policy.
5. Describe the role of government expenditures and the multiplier effect on aggregate demand.
6. Provide examples of applications of the multiplier effect.
7. Explain how government expenditure can crowd-out private investment.
8. Analyze how fiscal policy affects interest rates, exchange rates, aggregate demand, and output in an open economy with flexible exchange rates.

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9. Analyze how fiscal policy affects interest rates, exchange rates, aggregate demand, and output when the central bank maintains fixed exchange rates.
10. Discuss the debate over whether policymakers should try to stabilize the economy.
11. Define automatic stabilizers and explain how they affect aggregate demand.

LESSON 11 – Debates Over Macroeconomic Policy

1. Discuss whether policymakers should try to stabilize the economy.
2. Discuss whether monetary policy should be made by rule rather than by discretion.
3. Discuss whether the central bank should aim for zero inflation.
4. Discuss whether fiscal policymakers should reduce the government debt.
5. Discuss whether the tax laws should be reformed to encourage saving.