

## Instructions & Requirements

### About this Course

The economy is complex and changes in it are determined by the interplay of many forces. The role of economic theory is to characterize the relationships between few variables that provide a useful description of the economy. In this course you will find competing economic theories whose adequacy appears to vary depending upon the time-period under consideration. An important goal of the course will be to understand the relevance of these theories to our recent economic experience.

A review of stylized facts will show that there are specific patterns of association between inflation, unemployment, interest rate, government budget deficits, trade deficits etc. The theories we will examine will attempt to explain these patterns with varying degrees of success.

Cycles of high unemployment followed by booms with high inflation have been the common experience of market economies. An important objective of this course, among others, is to understand why such business cycles occur. We will examine the working and effectiveness of fiscal and monetary policies, as well as their interaction (policy-mix) in the context of the international economy.

### Requirements

- Equally weighted take-home assignments: 15%.
- Two reviews @ 25%: 50%.
- Final Examination: 35%. The Final Exam is in of two parts:

**Part A: 25%.** You will write an essay on current macroeconomic issues. The task will be assigned to you by Monday, November 30, 2009. The essay is due in my office no later than Noon on Wednesday, December 9, 2009. No exceptions.

**Part B: 75%.** Self-scheduled comprehensive examination.

### Note

To receive any credit, assignments must be returned within the stated time limits. Prior permission from me is required for late submissions and absence from reviews. You should not seek exceptions unless there are exceptional circumstances for your request.

### Text

Robert J. Gordon, *Macroeconomics*, 11<sup>th</sup> edition, Pearson: Boston, 2009. ISBN 978-0-321-48551-9.

### Office Hours

M W: 12:30 – 1:30, T R: 10:00 – 11:00  
& by appointment. My office hours and teaching schedule are posted online.

**Reviews**

1<sup>st</sup> Review: Tuesday, October 6, 2009.  
2<sup>nd</sup> Review: Tuesday, November 17, 2009.  
Final Exam: Self-scheduled.

Useful websites exist on a wide variety of issues and provide you with current data and analyses. Several URLs to start you off are provided below. You can access many of these from the links on my Links page, which are sorted by category.

**Web Resources**

**U.S. Government Databases and Policy Links**

[www.whitehouse.gov/fsbr/esbr.html](http://www.whitehouse.gov/fsbr/esbr.html)  
[www.bea.doc.gov](http://www.bea.doc.gov)  
[www.census.gov](http://www.census.gov)  
[www.stats.bls.gov](http://www.stats.bls.gov)  
[www.stls.frb.org/fred](http://www.stls.frb.org/fred)

**Economic Policy News and Analysis**

[www.economist.com](http://www.economist.com)  
[www.wsj.com](http://www.wsj.com)  
[slate.msn.com](http://slate.msn.com)  
[www.policy.com](http://www.policy.com)  
[netec.wustl.edu](http://netec.wustl.edu)

**International Data and Issues**

[www.worldbank.org](http://www.worldbank.org)  
[www.imf.org](http://www.imf.org)  
[www.unsystem.org](http://www.unsystem.org)  
[www.oecd.org](http://www.oecd.org)

**Financial & Economic News**

[www.cnnfn.com](http://www.cnnfn.com)  
[www.bloomberg.com](http://www.bloomberg.com)  
[www.merrilllynch.com](http://www.merrilllynch.com)  
[cbs.marketwatch.com](http://cbs.marketwatch.com)  
[www.ft.com](http://www.ft.com)

**Other Resources**

I strongly encourage you to regularly read the *Wall Street Journal*, *The Economist*, and similar publications on current economic activity. The case studies in the text are an excellent starting point. The text is web-enabled and you should explore this resource. The text will be supplemented by numerous handouts and additional readings.

**Economics Center**

The Center is located in Chambers 2187 and is open to you on Sunday-Thursday, 8pm-11pm. The Economics Center is staffed by economics majors and minors. Though tutorial help is available there free of cost to Eco 101 students only, you are likely to find others with interests similar to yours working on their problem sets and studying for tests and quizzes.

Please consider the Economics Center as an alternative to the library for studying. To find out more, go to my homepage and click on the Econ Center link.

# Course Content

## Introduction

### 1. Measuring Macro Variables

Short- and Long-Run: Business Cycles and Real GDP  
Price Index, Inflation Rate and Unemployment  
The Circular Flow of Income and Expenditure: NIPA  
Saving and Investment: Leakages and Injections

Chapter 1 & 2

## Fixed Price Level: Keynesian Model

### 2. Spending, Income and Interest Rates

Determination of Equilibrium Income with Fixed Interest Rates  
Consumption Function: Marginal Propensity to Consume and Save  
Planned Expenditure Function  
Equilibrium and Disequilibrium  
The Multiplier Effect of Autonomous Spending  
Functions and Types of Interest Rates  
Interest Rate, Rate of Return, and the Demand for Goods  
The IS Curve: Goods Market Equilibrium

Chapter 3

### 3. The IS-LM Model: Analyzing Monetary and Fiscal Policies

Elements of the Money Market: Money Demand and Money Supply  
The LM Curve: Money Market Equilibrium  
The IS-LM Model: Joint Equilibrium of Goods and Money Markets  
Monetary & Fiscal Policies, Crowding-Out Effects  
Strong and Weak Effects of Fiscal and Monetary Policies  
Effects of Alternative Policy Mixes

Chapter 4

### 4. Nature and Effects of Budget Deficits

Structural and Cyclical Budget Deficits  
Budget Deficit & National Saving: Closed & Open, Small & Large Economies  
Balance of Payments, Current Account & Net International Investment  
Position

Chapter 5

### 5. Balance of Payments & Foreign Exchange Markets

Foreign Exchange Market and Exchange Rates  
Nominal and Real Exchange Rates, Purchasing Power Parity  
Fixed and Flexible Exchange Rate Systems  
Exchange Rates & Net Exports

Chapter 6

# Flexible Price Level

6. **Aggregate Demand & Aggregate Supply** Chapter 7:  
197-214  
Deriving the AD curve: Price changes shift the LM curve  
How Policy changes Shift the AD curve  
Deriving the Short Run AS curve: Money Wage does not change  
Labor Market Adjustments over Time  
Short Run and Long Run Effects of Policy Changes
7. **Orthodox Theories** Chapter 7:  
214-227  
Classical Theory: Self-Correcting Economy  
Importance of Price Flexibility  
Quantity Theory of Money  
Keynesian Theory: Failure of Self-Correction  
Monetary Impotence, Failure of Price Deflation  
Labor Market Failure, Persistent Unemployment
8. **Recent Evolution** Chapter 17  
Neo-Classical (Fooling) Model: Asymmetric Information, Adaptive Expectations  
New-Classical Macroeconomics: Rational Expectations  
Policy Ineffectiveness Proposition  
Real Business Cycle Model: Importance of Supply Shocks  
New-Keynesian Model: Labor Contracts, COLAs, Efficiency Wages

# Inflation and Unemployment

9. **The Dynamics of Inflation** Chapter 8  
The Short-Run Phillips Curve (SP)  
The Long-Run Phillips Curve (LP): Role of Expectations  
Nominal GDP Growth, Inflation & Disinflation  
Okun's Law: Unemployment Rate and Output Ratio
10. **Goals of Stabilization Policies** Chapter 9  
[Read this unit on your own]  
Costs of Inflation  
Types and Sources of Unemployment

# Monetary and Fiscal Policies

11. **Monetary Policy and Financial Deregulation** Chapter 13  
Money & Money Market Instruments  
Determinants of Money Supply: High-Powered Money  
Federal Reserve's Tools for Changing Money Supply:  
OMO, DR, RR  
Theories of Money Demand

12. Policy Activism versus Rules Chapter 14  
Policy Activism v. Rules  
Target Choice: Money Supply v. Interest Rate  
The Taylor Rule

13. Fiscal Policy Chapter 12  
Long Run Effects of Fiscal Policy  
Debt/GDP in Perspective  
Other Views: Supply-Side View of Fiscal Policy  
Other View: Barro-Ricardo Equivalence Theorem

## Economic Growth and Productivity

14. Theory of Economic Growth Chapter 10  
The Magic of Compound Numbers  
Production Function and Economic Growth  
Solow's Growth Theory  
Theory of Endogenous Growth

15. Economic Growth and Living Standards Chapter 11  
Historical Perspective  
Causes of Slow Growth  
Income Inequality and Economic Growth

## Overview