

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 Saturday, April 25, 2009. The essay is due in my office no later than Noon on Wednesday, May 6, 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*, 11th edition, Pearson: Boston, 2009. ISBN 0-321-62240-5.

Office Hours

M: 1:00 – 2:00, T W R: 10:00 – 11:00
& by appointment. My office hours and teaching schedule are posted online.

Reviews

1st Review: Thursday, February 26, 2009.
2nd Review: Tuesday, April 21, 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
www.bea.doc.gov
www.census.gov
www.stats.bls.gov
www.stls.frb.org/fred

Economic Policy News and Analysis

www.economist.com
www.wsj.com
slate.msn.com
www.policy.com
netec.wustl.edu

International Data and Issues

www.worldbank.org
www.imf.org
www.unsystem.org
www.oecd.org

Financial & Economic News

www.cnnfn.com
www.bloomberg.com
www.merrilllynch.com
cbs.marketwatch.com
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 Su T W R between 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 Contents

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
Monetary & Fiscal Policies with Fixed & Flexible Exchange Rates

Chapter 6

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| <p>6. Aggregate Demand & Aggregate Supply
 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</p> | <p>Chapter 7:
197-214</p> |
| <p>7. Orthodox Theories
 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
 The Great Depression</p> | <p>Chapter 7:
214-227</p> |
| <p>8. Recent Evolution
 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</p> | <p>Chapter 17</p> |

Inflation and Unemployment

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| <p>9. The Dynamics of Inflation
 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</p> | <p>Chapter 8</p> |
| <p>10. Goals of Stabilization Policies
 [Read this unit on your own]
 Costs of Inflation
 Types and Sources of Unemployment</p> | <p>Chapter 9</p> |
| <p>11. Monetary Policy and Financial Deregulation
 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
 Monetary Policy with Unstable Goods & Money Markets</p> | <p>Chapter 13</p> |

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