

INTERMEDIATE ECONOMIC THEORY: MACRO ECON 30020

Spring 2009

Instructor: Amitava Dutt

Class time: Mondays and Wednesdays 3:00 – 4:15 PM, Place: Pasquerilla, 116

Office Hours: Office Hours: Mondays and Wednesdays, 1.45 -2.45 PM, Tuesdays, 10-11 AM,
and by appointment

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OBJECTIVES

This course provides an intermediate level exposition of macroeconomic theory and its applications. Students are expected to be familiar with basic macroeconomic concepts from a principles level course. This course will review some of this background material briefly and then examine central macroeconomic concepts, theories and models of the determination of aggregate output and income, employment and unemployment, prices and inflation, growth, exchange rates and the balance of payments. Special attention will be given to the role of risk, uncertainty and expectations. Attention will be given to alternative macroeconomic theories so that students understand why economists differ in their opinions. The course will also apply the concepts, theories and models to understand real-world macroeconomic phenomena and policies.

PREREQUISITES

As already mentioned, students are expected to be familiar with basic economic concepts from a principles course in economics. The course will also use simple high-school level algebra and geometry (the purpose of which is to make the theory more accessible, not more complicated). Students are expected to be familiar with functions, their graphical representation, and the solution of simultaneous equations. Students are also required to be familiar with a spreadsheet program to manipulate economic data.

EVALUATION

Students will be evaluated on three exams (70 minutes each) and one cumulative final (2 hours), homework problems, class quizzes and several projects (sometimes involving groups).

1. The best **two exams** (out of three) will be counted for each student, each counting for 25% of the total grade (total of 50%).
2. The **final** will represent 30% of the grade.
3. Two **projects**, 5 points each. (a) The first project will be a short paper, four pages (double spaced) or less, involving data collection and econometric analysis, on a macroeconomic topic which you need to discuss with me. Examples include estimating some relevant function(s) for the economy and drawing some policy conclusions. (b) The second project will be another short paper, the same length as the first one, on the state of the macroeconomy at the time you submit the paper, with policy recommendations involving monetary and fiscal policy.

4. Eight **problem sets** which will be due over the course of the semester. You need to get them from courseware and hand them in to me by the date shown in the schedule. 10 points.

Please note that all homework assignments, projects and tests for this course must follow the University's Academic Code of Honor (see www.nd.edu/~hnr/code/docs/studentguide.pdf). All work must be done on your own, although you can, of course, study together and consult each other for questions. Home problems must be done without consulting books and notes. All class quizzes and exams are closed-book and closed-notes. .

WEBSITES

Several class projects that you will be doing require the use of economic data. You need to find the data from various sources.

On the web, useful sites are as follows:

US

Bureau of Economic Analysis: www.bea.gov

Bureau of Labor Statistics: www.bls.gov

Economic Report of the President: www.gpoaccess.gov/eop/

Federal Reserve System: www.federalreserve.gov

World

World Bank: www.worldbank.org

World Bank's World Development Indicators is available at the ND library site:

www.library.nd.edu/subjects/economics

(you need to log in)

Textbook Website

Blanchard's Companion Website: <http://www.pearsonhighered.com/blanchard>

You should also do the homework problems in the web pages for the 4th edition. They will not be graded, but are helpful to test your understanding of the material after you read each chapter.

http://wps.prenhall.com/bp_blanchard_macro_4/

Miscellaneous information

Resources for Economists: www.rfe.org

Economist magazine, a good place to look for US and international economic (including macro) news: <http://www.economist.com/>

TEXTBOOKS AND READINGS

Blanchard, Olivier, *Macroeconomics*, 5th edition, Pearson Prentice Hall, 2009.

This is the main text, and is to be read intensively. I will also put up summaries of important points and some additional notes on the course folder on courseware. Required readings are starred. The other readings are optional and can be found online from the library. (Look under

the journal names). Students are also encouraged to use the textbook web site. You will also find notes on each topic, and powerpoint slides, posted on courseware

We will try to follow the time-table given in the schedule, but may not be able to do so precisely.

Date	Topic	Reading	Assignments due	
Jan	14	Introduction	1	
	19	Introduction / Accounting	1, 2	
	21	Accounting	2	Problem Set 1
	26	Goods market	3	
	28	Financial markets	4	Problem Set 2
Feb	2	Financial markets/Goods and Financial	4, 5	
	4	Goods and financial markets	5	Problem Set 3
	9	Quiz 1		Problem Set 4, Feb 8
	11	Labor market and price level	6	
	16	AS/AD 1	7	
	18	AS/AD 2	7	
	23	Macroeconomic alternatives 1	27	Problem Set 5
	25	Macroeconomic alternatives 2		Problem Set 6, March 1
Mar	2	Quiz 2		
	4	Inflation	8, 9	
	9	Spring Break		
	11	Spring Break		
	16	Growth:facts	10	Project paper due
	18	Saving, investment and growth	11	
	23	Technological change and growth	12	
	25	Growth and unemployment	13	
	30	Uncertainty, risk and expectations	14	Problem Set 7
	April	1	Financial markets, demand for goods and expectations	15, 16
6		Expectations, output and policy	17	
8		Quiz 3		
13		Easter holiday		
15		Openness and the economy	18	
20		Goods market and the open economy	19	
22		Goods and asset markets and the open economy	20, 21	
27		Macroeconomic policy 1	24, 25	Problem Set 8
29	Macroeconomic policy 2	25, 26	Policy brief due	
May	5	Final. 4:15-6:15		

SYLLABUS

Part I. Introduction

I. 1. Macroeconomics

- a. Macroeconomics and aggregation
- b. Main issues in macroeconomics
- c. Alternative approaches to macroeconomics
- d. The circular flow
- e. Theories and models: variables, parameters, functions and equilibrium
- f. A look at the world: US, Europe, Japan, post-socialist countries, less-developed countries

Readings:

* Blanchard, Chapter 1

I. 2. Macroeconomic Accounting

- a. GDP
- b. Components of Income
- c. Components of Aggregate Demand
- d. Saving-investment identities
- e. Nominal and Real GDP
- f. Price level and Inflation
- g. Unemployment

Readings:

* Blanchard, Chapter 2, Chapter 3, pg. 46-7, Appendix 1

Abraham, Katherine, “What we don’t know can hurt us”, *Journal of Economic Perspectives*, 2005, 19(3), 3-18.

Part II. The short run: Goods and Asset Markets

II. 1. The Goods Market

- a. Demand for goods
- b. Consumption and saving functions
- c. Equilibrium output
- d. Saving and investment
- e. The multiplier
- f. Policy

Readings:

* Blanchard, Chapter 3

Ludvigson, Sidney “Consumer confidence and consumer spending”, *Journal of Economic Perspectives*, Spring 2004, 18(2).

II. 2. Asset Markets

- a. Demand for money
- b. Fixed money supply and the interest rate
- c. Banks
- d. The Central Bank
- e. Two views of the money supply process

Readings:

- * Blanchard, Chapter 4
- * Notes on two views of the money supply process (on courseware).

II. 3. Goods and Asset Markets

- a. IS curve
- b. LM curve
- c. Equilibrium output and interest
- d. Fiscal policy
- e. Monetary policy
- f. The IS/LM model

Readings:

- * Blanchard, chapter 5

Quiz 1: September 22

Part III. The medium run: Output, the price level and inflation

III.1 The labor market and the price level

- a. Employment and unemployment
- b. Wage determination
- c. Price determination
- d. The natural rate of unemployment
- e. What's so natural about the natural rate?

Readings:

- * Blanchard, chapter 6

* Stiglitz, Joseph E. “Reflections on the Natural Rate”, *Journal of Economic Perspectives*, Winter 1997, 11(1).

* Lawrence Ball and N. Gregory Mankiw, “The NAIRU in theory and practice”, *Journal of Economic Perspectives*, Fall 2002, 16(4).

III.2 Aggregate Demand and Aggregate Supply

- a. Aggregate supply
- b. Aggregate demand
- c. Equilibrium output and the price level
- d. Adjustment to equilibrium
- e. Monetary policy
- f. Fiscal policy
- g. Changes in supply

Readings:

* Blanchard, chapter 7

Barsky, Robert and Kilian, Lutz, “Oil and the Macroeconomy since the 1970s”, *Journal of Economic Perspectives*, 18(4), Fall 2004, 115-34.

III.3 Macroeconomic Alternatives

- a. Classical approach
- b. Keynesian approach
- c. Neoclassical synthesis
- d. Monetarist approach
- e. Rational expectations and new classical approach
- f. New Keynesian approach
- g. Post Keynesian approach

Readings:

* Blanchard, chapters 22, 27

* Dutt, Amitava K. and Skott, Peter, “Keynesian Theory and the Aggregate Supply/Aggregate Demand Framework: A Defense”, *Eastern Economic Journal*, Summer 1996.

Greenwald, Bruce and Stiglitz, Joseph, “New and Old Keynesians” *Journal of Economic Perspectives*, Winter 1993, 7(1).

Tobin, James, “Price Flexibility and Output Stability: an Old Keynesian View”, *Journal of Economic Perspectives*, Winter 1993, 7(1).

Bradford de Long, “The triumph of Monetarism?” *Journal of Economic Perspectives*, Winter 2000, 14(1).

III.4 Inflation

- a. Inflation and unemployment
- b. The Phillips curve
- c. The natural rate again
- d. Okun’s law
- e. Money supply and inflation
- f. Conflict inflation
- g. Deflation

Readings:

* Blanchard, chapters 8, 9. Skim 23

Quiz 2: October 15

Part IV. The long run: Growth

General reading:

* Dutt, Amitava Krishna, “Economic growth”, 2008, in *International Encyclopedia of Public Policy*, available on courseware.

IV.1 Growth: facts

- a. The growth experience
- b. Convergence and divergence
- c. Growth accounting
- d. Determinants of growth

Readings:

* Blanchard, Chapter 10

IV.2 Saving, investment and growth

- a. Harrod’s model
- b. Solow’s neoclassical model
- c. Growth effects and level effects
- d. Human capital

Readings:

* Blanchard, Chapter 11

IV.3 Technological change and growth

- a. Technological change in the neoclassical model
- b. Endogenous growth and new growth theory
- c. Externalities
- d. Determinants of technological change
- e. Capital accumulation versus technological change

Readings:

* Blanchard, Chapter 12

IV.4 Growth and Unemployment

- a. Technological change, aggregate demand and aggregate supply
- b. Productivity and the natural rate
- c. Distributional effects of technological change
- d. Aggregate demand, unemployment and growth

Readings:

* Blanchard, Chapter 13

* Dutt, Amitava Krishna, "Economic growth", in *International Encyclopedia of Public Policy*, 2008, available on courseware.

Part V. Uncertainty and Expectations

V.1 Uncertainty, risk and expectations

- a. Risk and uncertainty
- b. Nominal and real interest rates
- c. Expected present discount values
- d. The IS-LM model again
- e. The Fisher hypothesis

Readings:

* Blanchard, Chapter 14

V.2 Financial markets, demand for goods and expectations

- a. The bond market
- b. The stock market
- c. Consumption
- d. Investment

Readings:

* Blanchard, Chapter 15, 16

* Keynes, John Maynard, *The General Theory of Employment, Interest and Money*, Macmillan, 1936, Chap. 8.

Shiller, Robert, “Historic turning points in real estate”, *Eastern Economic Journal*, 2008, 34, pp 1-13.

Soros, George, “The crisis and what to do about it”, *Real-world economics review*, No. 48, 2008, available on courseware.

V.3 Expectations, output and policy

Readings:

* Blanchard, Chapter 17

Quiz 3: November 19

Part VI. The Open Economy

VI.1 Openness and the economy

- a. Export and Imports
- b. Exchange Rates
- c. Balance of payments
- d. Capital flows

Readings:

* Blanchard, Chapter 18

VI.2 The goods market and the open economy

- a. Imports, exports and output
- b. Effects of changes in parameters
- b. Depreciation
- c. Saving, investment and the trade balance

Readings:

* Blanchard, Chapter 19

VI.3 Goods and asset markets and the economy

- a. The IS curve again
- b. The LM curve again
- c. Equilibrium
- d. Aggregate demand and Aggregate Supply again
- e. Fixed exchange rates
- f. Flexible exchange rates

Readings:

* Blanchard, Chapters 20, 21

Part VII. Policy and Conclusions

VII.1 For and against policy

- a. Uncertainty
- b. Expectations
- c. Politics

Readings:

* Blanchard, Chapter 24

VII.2 Monetary Policy

- a. Inflation
- b. Design of monetary policy
- c. The Fed

Readings:

* Blanchard, Chapter 25

Gali, Jordi and Gertler, Mark, "Macroeconomic modeling for monetary policy evaluation", *Journal of Economic Perspectives*, 21(4), Fall 2007, 25-45.

VII.3 Fiscal Policy

- a. Government deficits and debt
- b. Implications of government debt and deficits
- c. Fiscal policy in action

Readings:

* Blanchard, Chapter 26

VII.4 Conclusion

Readings:

* Mankiw, N Gregory, “The macroeconomist as scientist and engineer”, *Journal of Economic Perspectives*, 20(4), Fall 2006, 29-46.

Final May 5, 4.15 – 6.15 PM