

**Intermediate Macroeconomics
Economics 30020**

*Dr. Christopher J. Waller
Spring 2009 DeBartolo 215*

Office: 444 Flanner Hall

Phone: 631-4963

Email: cwaller@nd.edu

Homepage: <http://www.nd.edu/~cwaller/>

Office Hours: Monday and Wednesday 10:00-11:00 or by appointment.

Text: None required. Richard Froyen, *Macroeconomics Theory and Policy*. The text is the closest there is to my lecture notes. It is used as a supplement; the lecture notes are the most critical part of the course. So if you can find ANY older edition of the text, buy it and save yourself \$130 bucks.

Exams and Quizzes: There will be 3 exams – two midterms and a final. Each is worth 100 points. The final exam is NOT cumulative. The grading scale is based on a curve. Exams consist of essay/application questions.

Exam/Quiz Dates: The exams will be on the following dates:

First Exam:	Wednesday	February 25
Second Exam:	Monday	April 6
Final Exam:	Friday	May 8 8:00-10:00 am.

If the class is willing, I would like to schedule the mid-term exams for the evenings of the dates above. This gives the students more time on the exam. In return, I will give the class two days off at some point in the semester.

Special Date: There will be no class on Wednesday March 4.

Class Policies: There are five class policies that you should familiarize yourself with.

1. Class attendance is voluntary. If you do not want to come to class, that is your business (and your money). The reason for this policy is that if you skip class, the costs of that decision are borne by you, not by your classmates or me. However, do not expect me or your classmates to give you a personal lecture on the material you missed. Let me WARN you: If you do NOT come to class you will do very poorly in this course.

2. On the other hand, I do not tolerate tardiness. The reason is that being late to class does impose costs on your classmates and me by disrupting the learning process that they are entitled to and I am obligated to provide. By walking in late, you are imposing a negative externality on the rest of us. As you should know from microeconomic theory, the way to handle a negative externality is to tax that activity. Hence, if I feel that tardiness is becoming a problem, I will impose a 5-point late "tax" on those of you who insist on walking in late. If you want to disrupt class, you will pay for that right. So please make every effort to get to class on time.

3. Cheating will NOT be tolerated. I have no sympathy for cheaters so if you are caught cheating, I will simply process cheating charges according to the guidelines laid out for me by the Faculty Handbook. The penalty is a grade of F for the course. Egregious cheating cases may result in suspension from the university. It is your responsibility to avoid the appearance of cheating and it is my duty to enforce the University rules on academic honesty. You should read the Academic Honor Code on the web at: <http://www.nd.edu/~hnr/code/docs/handbook.htm>.

4. I do not give extra homework or assignments to help some people improve their grade; this is college, not high school. Everyone gets graded on the same assignments.

5. Those of you who are seniors, it is your responsibility to pass this course and graduate because of your own efforts, not because of my generosity. Earn it, do not ask for it.

The purpose of these policies is to create a FAIR learning environment and, at the same time, give you the flexibility to make utility maximizing decisions with regards to your preferences for studying, sleeping, working and socializing. This environment makes you responsible for your actions. I will not subsidize the costs of your decisions. If you want an academic environment in which the professor subsidizes the costs of your decisions or feel you should be treated differently, or judged according to different academic standards than your classmates, then I suggest that you drop this course.

Course Objective: We will develop several macroeconomic models to explain the behavior of key macroeconomic variables such as GDP, inflation, unemployment, and the interest rate. These models will help to develop the student's analytical and deductive reasoning skills. Finally, the role of monetary and fiscal policy will be examined within the context of each model.

COURSE OUTLINE

I. Review: The ‘Stylized Facts’ of Macroeconomics

- Introduction: Notation and data
- Measurement of Macroeconomic Variables and Circular Flow
- Concept Review: 1) Investment vs. purchases of financial instruments, 2) Real vs. nominal interest rates, 3) Money vs. income vs. wealth.

II. The Classical Model

Key Assumptions:

1. Perfectly flexible prices and wages determined in perfectly competitive markets.
2. Perfect information.
3. Perfect foresight (forward looking)
4. Equation of exchange theory of aggregate demand.
5. Loanable funds model of interest rate determination.

Aggregate Supply:

1. Production functions, theory of the firm and labor demand
2. Labor-leisure tradeoff and labor supply

Aggregate Demand:

1. Quantity theory of money (equation of exchange)
2. Saving and Investment:

Inter-temporal consumption/saving model

Theory of the firm and capital demand

III. The Keynesian Model

Key Assumptions:

1. Rigid or "sticky" prices and wages determined in imperfectly competitive markets.
2. Imperfect information.
3. Adaptive expectations (backward looking)
4. IS/LM determination of aggregate demand.
5. Liquidity preference model of interest rate determination.

The Keynesian System (I): The Role of Aggregate Demand

The Keynesian System (II): Money, Interest, and Income

Policy in the Keynesian System

IS-LM and Aggregate Demand

IV. The Neo Classical Synthesis Model = Classical AS + Keynesian AD + Imperfect Info

Key Assumptions:

1. Perfectly flexible prices and wages determined in perfectly competitive markets.
2. Imperfect information regarding output prices by labor suppliers.
3. Adaptive expectations.
4. IS/LM determination of aggregate demand.

V. The New Classical Model = Neo Classical Synthesis + Rational Expectations

New Classical Economics

Recent Models: Real business cycle models and New Keynesian models

VI. The Neoclassical Growth Model

VI. Time permitting

Search Model of Unemployment

Search Models of Money

Lecture on Deficits and the National Debt