

Economics 285
Macroeconomic Theory
Spring 2010
Chris Georges

Office: KJ 217
Phone: x4472
Web: academics.hamilton.edu/economics/cgeorges/
Hours: M,W,F 10:30-11:30 & by apt.

This is a course in Macroeconomic Theory. The prerequisites are introductory micro- and macroeconomics (Econ 101 and 102). The objective of this course is to develop a set of tools useful for understanding economic growth, recessions, inflation, interest rates, and other macroeconomic phenomena.

Text: The text will be Mankiw, *Macroeconomics*, Seventh Edition. We will also read William Easterly's book *The Elusive Quest for Growth* and Paul Krugman's book *The Return of Depression Economics*. These books are available at the College store. I will also post news articles and other readings on my web page for this course (see url above or link in Blackboard).

Grades: Grades will be assigned as follows:

- **Final exam:** Tuesday, May 11, 9:00 am. 35% of grade.
- **Midterm I:** Thursday, February 18 in class, with take home part due Tuesday, February 16 in class. 27.5% of grade.
- **Midterm II:** Thursday, April 15 in class, with take home part due Tuesday, April 13 in class. 27.5% of grade.
- **Class participation.** Includes news presentation and engagement in class. 10% of grade.

Each midterm exam will have a computer based take home component which will be due in class prior to the in-class exam date (see above). Your ability to take the scheduled midterm and final examinations at the times posted on this syllabus is a requirement for enrollment in this course. If you anticipate a legitimate scheduling conflict, you must see me *within the first two weeks of class* to have the conflict resolved. Otherwise, no exceptions will be granted. Late take home exams will not be accepted and will receive a grade of zero. You may not work together on the take home portion of the exams. All graded work is covered by the Honor Code.

Problem Sets: I will distribute problem sets and provide suggested answers to many of these problems (with a lag). These homeworks are *ungraded*, but it is extremely important that you keep up with them.

Excel: On the take home parts of the exams and on some of the problem sets, you will be asked to use the spread sheet program Excel to analyze historical data. Excel is available in the KJ computer labs, and the data files can be downloaded from my web page (see URL above).

Presentations: Each student will be asked to give at least one short presentation during the semester on a current macroeconomic event or other issue of relevance to the class. See below for details. These presentations will count toward the participation part of your course grade.

Office Hours: I strongly encourage you to meet with me regularly to discuss the readings, lectures, and problem sets. If you can't make my scheduled office hours, I am very happy to meet with you by appointment.

Speakers: Speakers: Please plan to attend the talk "What You Need to Know about Health Care Reform" by Jonathan Skinner on February 11, 7:30 in the Chapel. I may also schedule an additional talk during the semester.

Course Overview: The course divides naturally into three sections. The first third of the course models the economy in the long run. Here, we consider the determinants of economic growth,

inflation, and the composition of national output, abstracting away from short run business cycle fluctuations. The two central models that we will study in this section are a long run model of saving and investment and the Solow growth model.

The second third of the course looks at business cycle fluctuations and macroeconomic stabilization policy. Here, we study a simple model of national income determination in the short run (the IS-LM model) and a simple model of inflation (dynamic AS) which will help us shed some light on events such as the Great Depression and the recessions of 1990-1991 and 2001 as well as on the current state of the economy. We will also consider some alternative models and some debates about how monetary policy should be conducted.

The final third of the course takes a closer look at the microeconomic foundations of macroeconomics. We look in greater detail at consumption, saving, investment, the national debt, the trade balance, and monetary institutions.

Schedule of topics and readings: (Readings are from Mankiw except as otherwise noted)

1. Introduction:

Jan 19, 21: Introduction. (Ch 1; Federal Reserve Board, “Testimony of Chairman Ben S. Bernanke, July 21, 2009”); National Income Accounting and Price Indices (Ch. 2; and Handout on Price Indexes)

2. The Economy in the Long Run:

Jan 26: Static Equilibrium (Ch 3, skim 3.2; Handout on Excel)

Jan 28: Money and Inflation (Ch 4; Handout on Money)

Feb 2: Open Economy (Ch 5)

Feb 4, 9: Growth (Ch 7,8, include appendix)

Feb 11, 16: Growth (continued) (Krugman, “The Myth of Asia’s Miracle: A Cautionary Tale”; Gordon, “Does the ‘New-Economy’ Measure Up to the Great Inventions of the Past?”; Easterly, **The Elusive Quest For Growth**)

MIDTERM EXAM: Take-home part due in class, Tuesday Feb 16 (hard copy). In-class part Thursday Feb 18.

3. The Economy in the Short Run:

Feb 23: The Business Cycle and Stabilization Policy (Ch 9)

Feb 25, March 2: IS-LM (Ch 10)

Mar 4, 9: Using IS-LM (Ch 11)

Mar 11: Open Economy (Appendix to Ch. 12, and pp. 358–366).

SPRING BREAK

Mar 30, Apr 1: Dynamic Aggregate Supply (Ch 14; Handout on Dynamic AS)

Apr 6, 8: Recent Economic Crises (Krugman, **The Return of Depression Economics**,; PBS Frontline: “Inside the Meltdown”)

MIDTERM EXAM: Take-home part due in class, Tuesday April 13 (hard copy). In-class part Thursday April 15.

4. More on Macroeconomic Policy:

April 20: Macroeconomic Policy and the Current Recession (Ch 15; Brunnermeier, “Deciphering the Liquidity Crunch of 2007–08”)

April 22: Government Debt (Ch 16)

5. More on the Microeconomic Foundations of Macroeconomics:

April 27: Consumption and Saving (Ch 17)

April 29: Investment (Ch 18; Handout on Investment)

May 4: Money (Ch 19)

6. Conclusion

May 6: Conclusion (Epilogue)

FINAL EXAM (cumulative): Tuesday, May 11, 9:00 am.

News presentations:

You will each give at least one brief presentation at the beginning of a class with another student. The topic should be a recent news item related to macroeconomics or some other information relevant to the course. You should divide up the presentation so that each of you speaks for a few minutes on the topic (please keep the total presentation time to no more than 5 minutes). After the presentation, you will have a few minutes to field questions from the rest of the class or raise your own questions.

You must email the rest of the class (using the email list in Blackboard) with a condensed description of your topic (a few paragraphs) and your source readings (URLs or full text) no later than 7:00 PM the evening before your presentation. In your email you can also raise a few questions for the class to think about prior to the presentation. All students in the class are expected to have read the materials that you have sent by class time.

You should use several types of sources for your information. For example, if you find an interesting topic in a news article from the New York Times, Financial Times, or Wall Street Journal, look for a statement from a relevant government agency or think tank that will answer questions that you had about the news coverage. You might also look for and present charts of supporting data or find a journal article or working paper that provides additional supporting information.

Many news sources are available directly on-line or are available in hard copy in the library or the Levitt Center (e.g., Levitt has The Financial Times, The Economist, and the Wall Street Journal), and many are archived (full text) in Lexis-Nexis which is available through the library web page. The Wall Street Journal is linked electronically through ALEX. Links to a variety of government organizations, think tanks, etc., are provided on our department web resource page, and a number are linked on my web page for this course. You might check out, for example, the weekly Economic Letter from the FRB of San Francisco, the cover articles in the Monthly Economic Trends publication from the FRB of St. Louis, or articles listed on the VOX EU web site or in the NBER working paper series. If you want to look at charts of recent data, try FRED (a Federal Reserve Board data charting site) or Economagic, or go to the agency that publishes the data that you are interested in (e.g., the Bureau of Labor Statistics for unemployment or the CPI), or the Economic Trends publications noted above. There are also a number of good economics blogs, some of which are linked on my course page.