

<p>Intermediate Macroeconomic Analysis (Economics 371)</p> <p>Fall 2008 MWF 1:10–2:10 and 2:20-3:20 Carnegie 305</p>	<p>Professor Pete Ferderer E-mail: ferderer@macalester.edu Phone: 696-6093 Office: 306 Carnegie Office Hours: Mon. 3:30-4:30 a.m., Thur. 10–12 a.m. and by appointment</p> <p>Preceptor: Xi Luo Review Sessions: Sun. 7:00-8:30 p.m.</p>
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Course Description: The first part of the course focuses on the microeconomic foundations of macroeconomics and the neoclassical model characterized by competitive markets, market-clearing equilibria and money neutrality. We address several questions: What forces drive savings, consumption and investment? What determines the level and distribution of income in the economy? How is full-employment of the economy’s resources maintained? What are the causes and consequences of inflation? What role do financial markets and central banks play in the economy?

The second part of the course focuses on the evolution of macroeconomic thinking since the Great Depression: from Keynes to the neo-Keynesians, the monetarist critique, new-classical economics of the 1970s, new-Keynesian economics of the 1980s, and behavioral economics which has gained strength in the past ten years. Why did these different conceptualizations of the economy emerge? What are their policy implications? This section is organized around three important historical episodes: 1) the Great Depression of the 1930s, 2) the Great Inflation of the 1970s and 3) the Great Moderation of recent years.

The third part of the course covers open-economy macroeconomics and growth theory. We explore the factors driving international flows of capital, goods and services and the role that exchange rates play in this process. Using growth theory, we examine how capital accumulation, technology and institutions influence the wealth of nations in the long-run.

This course is taught from an historical perspective and we emphasize the interplay between theory, institutions, policy and economic outcomes.

Readings: The main textbook for the course is *Macroeconomics*, Sixth Edition, by Gregory Mankiw. Many of the other readings are available at the *The Economist* magazine (<https://www.economist.com/index.html>). Students are asked to purchase a 12-week subscription (\$19.95) so that they can access the articles online. To subscribe, go to www.economistacademic.com and use the class ID number 1126.

The Classroom: I rely on lectures to teach this course and students are encouraged to download my PowerPoint files from Moodle. Please print 2-4 slides per page to save paper. I also employ classroom discussions because they allow students to draw on a broader range of insights and

develop their communication skills. I expect that all students will: (1) read each article or chapter before class, (2) prepare answers to discussion questions, (3) contribute to discussions, (4) listen carefully when others speak, (5) ask probing questions, and (6) disagree constructively and respectfully.

Consumer Alert: I strongly recommended that students complete Intermediate Microeconomics Analysis (Econ-361) before taking this course. Students often find that it works better to take Econometrics after taking Intermediate Macroeconomics.

As your professor, I strive to: 1) know my stuff, 2) set high, yet attainable, standards, 3) be fair and objective in grading, 4) provide well-organized and stimulating lectures, 5) promote class discussion that facilitates active learning, and 6) be available outside of class for consultation.

Grades: Final grades are based on the following:

First Exam	20%
Second Exam	20
Third Exam	20
Problem Sets	20
Video Project	10
<u>Class Participation</u>	<u>10</u>
Final Grade	100%

All students must take exams at the scheduled time unless they have a) a conflict with an extracurricular activity and make prior arrangements with me, or b) a documented emergency. Students who leave campus before the date of the third exam (Monday, December 8) will receive a failing grade for that exam. Students are encouraged to form study groups and may turn in co-authored (two students) problem sets. Problem sets should be created with a word processor, though diagrams may be hand drawn. Late problem sets will not be accepted. Students are required to make a ten minute video presentation on a macroeconomic topic of their choice (see below). Finally, students are graded on class participation. Participation points are assigned as follows:

- Absent From Class = -1
- Present in Class = 1
- One Good Question or Insight = 2;
- Several Good Questions or Insights = 3.

Important Web Sites:

- The History of Economic Thought Website <http://cepa.newschool.edu/het/>
- The Economist* www.economist.com
- Macro Data at the St. Louis Fed <http://research.stlouisfed.org/publications/net>
- Economagic Data <http://www.economagic.com/>
- Macrobytes www.worthpublishers.com/mankiw
- Monetary Policy Simulation Game www.snb.ch

Video Projects

The Task: Each student, working alone or with another student (recommended), is required to make a ten minute presentation on a macroeconomic topic of their choice and videotape it. In the presentation you are expected to motivate the topic, provide relevant theory (using equations, diagrams or verbal description) and display related data (using time-series graphs, scatter plots, tables or pictures). Presentations will be graded on: 1) use of macroeconomic reasoning (33%), 2) quality of presentation (33%), and 3) creativity (33%). Grades will be lowered if the presentation exceeds 10 minutes. Awards will be given to students who produce the best videos.

Motivation: This project serves several purposes. First, each student gets the opportunity to explore an issue that interests them in greater depth. Second, you will become the class expert on a topic and educate your classmates about it. One of the best ways to learn new concepts is to explain them to others. Third, presentation skills are crucial for success in life and you can develop these skills by analyzing your video. Finally, the video serves as a permanent record of your presentation, which you can send to prospective employers, graduate programs, friends and family. Heck, you might even end up on YouTube!

Logistics: Equipment for videotaping can be obtained from Media Services located on the fourth floor of the Humanities Building. (x6377 and <http://www.macalester.edu/mediaservices/>). Media Services has a room you can use to create the video and they will provide assistance with the equipment. For the sake of efficiency, they ask that multiple groups tape their videos at the same time.

Once you have completed recording, deliver the CD to Brad Belbas whose office is located in the Anthropology Department. Brad is the Academic Information Associate for the Social Sciences and he will compress the file and load it on to Moodle. The files will remain there for the class to view throughout the semester.

Topics: Topics are allocated on a first-come-first-serve basis. *The Economist* is a good place to start your search for information. Here are some potential topics:

- Ricardian Equivalence
- Taylor's Rule
- Inflation Targeting
- Minsky's Financial Instability Hypothesis
- Japanese Macroeconomic Performance
- Business Cycles and the Stock Market
- Oil Shocks
- Security Market Bubbles and Banking Crises
- Currency Over/Undervaluation
- Current Account Reversals
- Corruption and Economic Growth
- The "New Economy" of the 1990s
- Productivity Growth

Course Outline and Readings

The reading list is subject to change over the semester. All changes will be reflected on the web at <http://www.macalester.edu/~ferderer/Intermediate%20Macroeconomic.htm>. I expect that all students will read the material prior to class and be fully prepared to discuss it. The readings are listed in order of importance.

Date	Topic and Readings
Aug. 27 (W)	Introduction [1] Mankiw, Ch. 1. The Coolest Graphs Ever! http://www.gapminder.org/
Aug. 29 (F)	Measurement of the Macroeconomy [1] Mankiw, Ch. 2. [2] GDP: One of the Great Inventions of the 20 th Century, <i>Survey of Current Business</i> , 2000, p. 1-6. http://www.bea.gov/scb/account_articles/general/0100od/maintext.htm [3] <i>The Economist</i> , "Grossly Distorted Picture," 3/13/2008. http://www.economist.com/finance/economicsfocus/displaystory.cfm?story_id=10852462
Sep. 3 (W)	Measurement of the Macroeconomy [1] <i>The Economist</i> , "Chasing the Leader," 2/8/2003. http://www.economist.com/finance/displaystory.cfm?story_id=E1_TVGPSTG [2] <i>The Economist</i> , "Feet, Dollars and Inches," 4/3/2008. http://www.economist.com/finance/economicsfocus/displaystory.cfm?story_id=10958949
	<u>The Neoclassical Model</u>
Sep. 5 (F)	Microfoundations: Production, Factor Demands and Income Distribution [1] Mankiw, Ch. 3, pp. 44-59. [2] Yellen, "Economic Inequality in the U.S.," FRB of San Francisco <i>Economic Letter</i> , 12/1/2006. http://www.frbsf.org/publications/economics/letter/2006/el2006-33-34.pdf
Sep. 8 (M)	Microfoundations: Labor Supply [1] HET, The Micro foundations, pp. 9-16 (http://cepa.newschool.edu/het/essays/macro/neoclass.htm) [2] Ohanian, et al., "Work and Taxes: Allocation of Time in OECD Countries," FRB of Kansas City <i>Economic Review</i> , 3 rd Quarter 2007. http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/3q07raffo.pdf
Sep. 10 (W)	Financial Markets [1] Van Horne, "The Function of Financial Markets," <i>In Financial Market Rates and Flows</i> , 2001 (Moodle, Emphasis on pages 1-7) [2] Mishkin, "Globalization and Financial Development," 4/26/2007, (pages 1-4) http://www.federalreserve.gov/newsevents/speech/mishkin20070426a.htm
Sep. 12 (F)	Microfoundations: Savings [1] Mankiw, Ch. 16, pp. 461-71.
Sep. 15 (M)	Microfoundations: Investment [1] Mankiw, Ch. 17. [2] Duca, "Marking Sense of the U.S. Housing Market Slowdown," FRB of Dallas <i>Economic Letters</i> , 11/2006 http://dallasfed.org/research/ecllett/2006/el0611.pdf

- Sep. 17 (W) **The Neoclassical Macromodel and Say's Law**
 [1] HET, The Fisherian Vision and the Macromodel, pp. 1-7.
<http://cepa.newschool.edu/het/essays/macro/neoclass.htm>
 [2] Mankiw, Ch. 3, pp. 59-72.
 [3] Video: Schneirou 1-2, Historical Setting: <http://dig.lib.niu.edu/gildedage/video.html>
- Sep. 19 (F) **Money in the Neoclassical Macromodel**
 [1] Mankiw, Ch. 4, pp. 76-89.
 [2] HET, The Neoclassical Macromodel, pp. 7-9 & 16-20
<http://cepa.newschool.edu/het/essays/macro/neoclass.htm>
 [3] Video: Mints
http://www.history.com/media.do?id=mm_money_centralization_broadband&action=clip
- Sep. 22 (M) **Seigniorage and Nominal Interest Rates**
 [1] Mankiw, Ch. 4, pp. 89-97.
 [2] *The Economist*, "Crisp and Even," 12/20/2001.
https://www.economist.com/finance/displaystory.cfm?story_id=E1_RRPVRV
- Sept. 24 (W) **The Role of Central Banks**
 [1] The History of Central Banking in the United States," FRB of Minneapolis
<http://www.minneapolisfed.org/centralbankhistory/bank.cfm#715>
 [2] Mankiw, Ch. 18, pp. 510-516.
 [3] Cecchetti, "Crisis and Responses: The Federal Reserve and the Financial Crisis of 2007-2008," *Journal of Economic Perspectives*, forthcoming. (Moodle)
 [4] *The Economist*, "Bankers' Trust," 4/24/2008.
http://www.economist.com/finance/economicfocus/displaystory.cfm?story_id=11088888
 [5] Grant, "The Fed's Subprime Solution," NYT, 8/26/2007.
<http://proquest.umi.com.ezproxy.maclester.edu/pqdweb?index=1&did=1325712121&SrchMode=1&sid=1&Fmt=3&VInst=PROD&VType=PQD&RQT=309&VName=PQD&TS=1188564415&clientId=1005>
 [6] Video: Cramer Melts Down <http://www.youtube.com/watch?v=Pd5zAbDKZEg>
- Sep. 26 (F) **The Gold Standard and Fiat Monetary Systems**
 [1] Mankiw, Ch. 4, pp. 97-109.
 [2] Video: Fiat Empire <http://video.google.com/videoplay?docid=5232639329002339531>
- Sep. 29 (M) **First Exam (7:00-9:00 P.M.)**
- Oct. 1 (W) **The Great Depression, Keynes and Friedman**
 [1] *The Economist*, "Skidelsky on Keynes," 11/25/2000.
http://www.economist.com/opinion/displaystory.cfm?story_id=E1_QPTSTS
 [2] Video: Great Depression I <http://www.youtube.com/watch?v=9V5OP-VmXgE>
 [3] Video: Great Depression II <http://www.youtube.com/watch?v=O7pnjzCuSv8>
 [4] Audio: FDR's First Fireside Chat
<http://www.americanrhetoric.com/mp3clips/politicalspeeches/fdrfirstfiresidechat63496436943.mp3>
 [5] Video: Pain <http://www.youtube.com/watch?v=gplaq2yRgg>
- Oct. 3 (F) **The Keynesian Cross**
 [1] Mankiw, Ch. 10, pp. 278-87.
 [2] Piger, "Is the Business Cycle still an Inventory Cycle?" *National Economic Trends*,
<http://research.stlouisfed.org/publications/net/20050101/cover.pdf>
- Oct. 6 (M) **The Goods Market and IS Curve**
 [1] Mankiw, Ch. 10, pp. 288-392.
- Oct. 8 (W) **The Money Market and LM Curve**
 [1] Mankiw, Ch. 10, pp. 292-302.

- Oct. 10 (F) **Applying the IS-LM Model**
 [1] Mankiw, Ch. 11.1 and 11.3
 [2] *The Economist*, “A Working Model,” 8/11/2005.
http://www.economist.com/finance/displaystory.cfm?story_id=E1_QNSQRJG
- Oct. 13 (M) **The AS-AD Model**
 [1] Mankiw, Ch. 11.2. & Ch. 13 (Sticky-Wage Model)
 [2] Computer Simulations [1](#) [2](#) [3](#)
- Oct. 15 (W) **The Neoclassical Synthesis**
 [1] HET, The Neoclassical-Keynesian Synthesis
<http://cepa.newschool.edu/het/schools/synthesis.html>
- Oct. 17 (F) **Fall Break**
- Oct. 20 (M) **The Phillips Curve and Natural Rate Hypothesis**
 [1] Hall, T. *The Rotten Fruits*, Ch. 2. (Moodle)
 [2] *The Economist*, “A Natural Choice,” 10/12/2006.
http://www.economist.com/finance/displaystory.cfm?story_id=E1_RDPTQTT
- Oct. 22 (W) **The Great Inflation**
 [1] Hall, *The Rotten Fruits*, Ch. 4 and 8. (Moodle)
 [2] *The Economist*, “The Crude Art of Policymaking,” 6/12/2004.
http://www.economist.com/finance/displaystory.cfm?story_id=E1_NSQSVDS
- Oct. 24 (F) **MEA Conference**
- Oct. 27 (M) **New Classical Macroeconomics**
 [1] *The Economist*, “Tales of the Expected,” 12/10/1990. (Moodle)
 [2] *The Economist*, “Rules v. Discretion,” 3/2/1991. (Moodle)
 [3] Mankiw, Ch. 19. p. 528-37.
- Oct. 29 (W) **New Keynesian Macroeconomics**
 [1] Mankiw, Ch. 19, p. 537-45.
 [2] *The Economist*, “Sticky Situations,” 11/11/2006.
http://www.economist.com/finance/displaystory.cfm?story_id=8135819.
- Oct. 31 (F) **Behavioral Macroeconomics**
 [1] Kopcke, et al. “How Humans Behave: Implications for Economics and Economic Policy,” FRB of Boston <http://www.bos.frb.org/economic/ResearchReview/issue1/issue1a.htm>
 [2] Video: **Dot.Bomb** http://www.pbs.org/newshour/bb/business/jan-june01/dotcom_3-12.html#
- Nov. 3 (M) **Taylor’s Rule & The Great Moderation**
 [1] “Measuring the Taylor Rule’s Performance,” *The Economist*, June 2007.
<http://www.dallasfed.org/research/eclett/2007/el0706.pdf>
 [2] Taylor on his rule http://www.econbrowser.com/archives/2007/09/the_taylor_rule.html
 [3] Konig and Ball, “The Great Moderation,” FRB of Dallas *Economic Letter*, 9/2006.
<http://dallasfed.org/research/eclett/2006/el0609.pdf>
- Nov. 5 (W) **Second Exam**

The Open Economy
- Nov. 7 (F) **Introduction**
 [1] Mankiw, Ch. 5. (pp. 115-131).

- [2] Kumar, "Does Foreign Direct Investment Help Emerging Economies? FRB of Dallas *Economic Letters*, 1/2007 <http://dallasfed.org/research/ecllett/2007/e0701.pdf>
- [3] *The Economist*, "Policing the Frontiers of Finance," 4/10/2008. http://www.economist.com/finance/economicsfocus/displaystory.cfm?story_id=11016324
- Nov. 10 (M) **Savings, Investment and Capital Flows in Open Economies**
 [1] Mankiw, Ch. 5. (pp. 121-131).
- Nov. 12 (W) **Capital Flight and Capital Immobility**
 [1] Reinhart and Rogoff, "Is the 2007 U.S. SubPrime Financial Crisis So Different: An International Historical Comparison," http://www.economics.harvard.edu/faculty/rogoff/files/Is_The_US_Subprime_Crisis_So_Different.pdf
 [2] Quintin and Lopez, "Mexico's Financial Vulnerability: Then and Now," FRB of Dallas *Economic Letters*, 6/2006 <http://dallasfed.org/research/ecllett/2006/e0606.pdf>
- Nov. 14 (F) **Floating Exchange Rates**
 [1] Mankiw, Ch. 5 (pp. 131-41).
 [2] Wolf, "Falling Dollar Saga Still has a Long Ways to Go," *Financial Times*, <http://www.ft.com/cms/s/0/25e4f1de-8491-11db-87e0-0000779e2340.html>
 [3] *The Economist*, "The Domino Effect," 7/3/2008. http://www.economist.com/finance/economicsfocus/displaystory.cfm?story_id=11667810
 [4] Video: **Falling Dollar** http://www.pbs.org/newshour/bb/economy/jan-june04/dollar_04-19.html#
- Nov. 17 (M) **Fixed Exchange Rates**
 [1] *The Economist*, "Revaluation by Stealth," 1/1/2008. http://www.economist.com/finance/displaystory.cfm?story_id=10499076
 [2] *The Economist*, "A Tale of Two Worlds," 5/8/2008. http://www.economist.com/finance/economicsfocus/displaystory.cfm?story_id=11328631
 [3] Video: **China Delyn's** http://www.pbs.org/newshour/bb/asia/july-dec05/currency_7-21.html#
- Nov. 19 (W) **Purchasing Power Parity and Vehicle Currencies**
 [1] Mankiw, Ch. 5 (pp. 141-45).
 [2] *The Economist*, "The Big Mac Index: Sandwiched," 7/24/2008. http://www.economist.com/research/articlesBySubject/displaystory.cfm?subjectid=348876&story_id=11793125
 [3] *The Economist*, "Losing Faith in the Greenback," 11/29/2007. http://www.economist.com/world/na/displaystory.cfm?story_id=10208445
- Economic Growth in the Long Run**
- Nov. 21 (F) **Introduction**
 [1] Mankiw, Ch. 7.
 [2] Data <http://www.gapminder.org/>
- Nov. 24 (M) **The Solow Model**
 [1] Mankiw, Ch. 7.
- Nov. 26 (W) **The Golden Rule, Solow's Surprise & Convergence**
 [1] Mankiw, Chs. 7.
 [2] Easterly, *The Elusive Quest for Growth*, Ch. 3.
- Dec. 1 (M) **The Role of Technology**
 [1] Mankiw, Ch. 8, pp. 216-20.
 [2] Jones, "The Economics of Ideas."
 [3] Video. **Quadir: Mobile Phones and Growth** <http://www.ted.com/index.php/talks/view/id/79>

Dec. 3 (W)

Endogenous Growth Theory and Demographics

[1] Warsh, *Knowledge and the Wealth of Nations*, Chs. 18, 22 & 24.

[2] DeLong & Olney, "The Reality of Economic Growth," 2006, pp. 120-28.

[3] *The Economist*, "Catch the Wave," 2/2/1999.

http://economist.com/surveys/displaystory.cfm?story_id=E1_TRGGNR

[4] Video: Rosling on Growth

<http://www.gapminder.org/video/talks/ted-2006---debunking-myth-about-the-third-world.html>

Dec. 5 (F)

Policy and Institutions

[1] Mankiw, Ch. 8, pp. 220-34.

[2] Sokoloff and Engerman, "Institutions, Factor Endowments, and the Paths of Development in the New World," *JPE*, 2000.

<http://links.jstor.org/sici?sici=08953309%28200022%2914%3A3%3C217%3AHLIFE%3E2.0.CO%3B2-0>

[3] *The Economist*, "Roots of Development," 11/5/02.

http://www.economist.com/finance/displaystory.cfm?story_id=E1_TPGVPGS

Dec. 8 (M)

Third Exam (4:00-6:00 PM)