

**Intermediate Macroeconomic Analysis**  
**Economics 371**  
**Macalester College**  
**Professor Pete Ferderer**  
**Spring 2016**

**Class Meeting Time:** Tuesday & Thursday, 1:20–2:50 pm

**Location:** Carnegie 305

**Faculty Office:** 310f Carnegie

**Office Hours:** Monday 9:00-11:00 am, Wednesday 1:00-2:30 pm and by appointment

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**Preceptor:** Soren Dudley (sdudley@macalester.edu)

**Preceptor Office Hours:** TBD

**Course Description:** Macroeconomics deals with the performance of the economy taken as a whole. We begin by discussing the measurement of aggregate variables (Gross Domestic Product, unemployment rates, the Consumer Price Index, S&P500, etc.) used to gauge macroeconomic performance. We then build theoretical models to help explain the dynamic behavior of the macroeconomy over time.

This course is organized around three broad questions:

1. Why do material living standards differ across countries and over time? That is, what are the forces that drive long-run economic growth?
2. Why do economies experience periods of boom and bust with fluctuations in income, unemployment, and other measures of economic activity? What is the potential for monetary and fiscal policy to stabilize the business cycle?
3. Why does the purchasing power of money, as measured by inflation and exchange rate movements, change over time and how does it influence the “real” economy?

The course utilizes two different theoretical perspectives. The first is the *classical model* characterized by rational economic agents, competitive markets and equilibrium. The second is the *Keynesian model*, which considers the implications of bounded rationality, imperfect competition and disequilibrium. The classical model is primarily used to explain macroeconomic performance in the long run and the Keynesian model is employed to shed light on short run changes in economic activity over the business cycle. As an economic historian I believe that we can learn a great deal from the past and will discuss many historical episodes in the course.

**Prerequisites:** Students must complete Intermediate Microeconomics (Econ 361) before enrolling in this course. Macroeconomics is built on microeconomic foundations so students get more out of this course if they have a calculus-based understanding of utility and profit maximization. Ideally, students will enroll in Econometrics (Econ 381) after taking this course so that they develop a deeper theoretical understanding of the economy before engaging in empirical analysis.

**Readings and Videos:** The required textbook for the course is *Macroeconomics*, 8<sup>th</sup> Edition, 2013, by Gregory Mankiw. Many changes were made in this edition to reflect the impact of recent events (e.g., sub-prime financial crisis, Great Recession, policy debates, institutional changes, etc.) on macroeconomic thinking. Thus it is critical that students use the 8<sup>th</sup> edition. Minor changes have been made in the 9<sup>th</sup> edition and it is not important that students purchase it. We will also make extensive use of chapters from other books, academic articles, and articles from *The Economist*. Links to these are available on the course Moodle page. Many interesting and informative videos have also been placed on Moodle and it is expected that students will watch these.

**The Classroom:** Students are expected to do readings and watch videos prior to class. I will often lecture on material from the readings, but students should be prepared to discuss them in depth and engage in problem solving exercises.

Students are encouraged to download my PowerPoint lectures from the course Moodle page after class and use them, both in print and animated form, to study course material. When printing the files, please put 2-4 slides on each page to save paper.

**Preceptor Office Hours:** The preceptor will be available one evening each week to help students with the problem sets and prepare for exams and quizzes.

**Course Grades:** Final grades are based on the following:

|                            |          |
|----------------------------|----------|
| First Exam                 | 22%      |
| Second Exam                | 22       |
| Third Exam                 | 22       |
| Problem Sets (7)           | 20       |
| Quizzes (3)                | 9        |
| <u>Class Participation</u> | <u>5</u> |
| Final Grade                | 100%     |

The exams and quizzes involve problem solving and essay writing. Students must take exams at times specified on the Course Outline (see below) unless they (a) have a conflict with an extracurricular activity and make prior arrangements to reschedule, or b) have a documented emergency. Students who are not on campus to take the third exam on May 7 will fail it.

Students are encouraged to form study groups and may submit co-authored problem sets (2 students per problem set). Problem sets should be typed using a word processor, but diagrams may be drawn by hand. Late problem sets will not be accepted. Parsimony is highly valued in economics and students will lose points for including superfluous information on problem sets and exams. I believe in the old adage that “a picture is worth a 1,000 words” and learning to depict macroeconomic theory in precisely drawn diagrams is fundamental to doing well in this course. Cheating and plagiarism will not be tolerated and could lead to failure of the course and other disciplinary action.

Class participation will affect your grade. To maximize participation points students should (a) attend every class, (b) be an engaged and respectful listener, (c) ask probing questions, (d) and make productive contributions to class discussions.

As your professor, I strive to know my stuff, set high but attainable standards, be a fair and objective grader, provide well-organized and stimulating lectures, promote class discussion that facilitates active learning, and be available outside of class for consultation. We are living during a time of incredible economic change and I urge students to take this opportunity to deepen their understanding of macroeconomics.

### Course Outline & Reading List

| Date   | Topics                                   | Readings  | Comments           |
|--|--|---|--------------------|
| <b>Introduction</b>                                    |  |   |                    |
| 1/21   | Introduction                             | Mankiw, Ch. 1.<br>Luttrell, et al., "Assessing the Costs and Consequences of the 2007-09 Financial Crisis and Aftermath, FRBD <i>Economic Letters</i> , 9/13.   |                    |
| 1/26   | Data of Macroeconomics                   | Mankiw, Ch. 2.<br>Rudebusch, et al., "The Puzzle of Weak First-Quarter GDP Growth," FRBSF <i>Economic Letters</i> , 5/18/15.  |                    |
| <b>Classical Theory: The Economy in the Long Run</b>   |  |   |                    |
| 1/28   | Production of National Income            | Mankiw, Ch. 3, p. 47-63.<br>Snowdon & Vane, <i>Modern Macroeconomics</i> , Ch 2, 44-51.   | Problem Set #1 due |
| 2/2  | Aggregate Demand & Say's Law             | Mankiw, Ch. 3, 63-77.<br>Snowdon & Vane, <i>Modern Macroeconomics</i> , Ch. 2, 51-56.<br>Library of Economics and Liberty, "Knut Wicksell."<br><i>The Economist</i> , "No Country for Young People," 11/22/14.                |                    |
| 2/4  | Consumer Behavior                        | Mankiw, Ch. 16.2, 16.3 and 19.4<br>Library of Economics and Liberty, "Irving Fisher."   |                    |
| <b>Growth Theory: The Economy in the Very Long Run</b> |  |   |                    |
| 2/9  | Solow Model                              | Mankiw, Ch. 8.  | Problem Set #2 due |
| 2/11   | Solow Model                              | Mankiw, Ch. 8.  |                    |
| 2/16   | Technology                               | Mankiw, Ch. 9.1 and 9.4.<br>Jones, Ch. 6, "Growth and Ideas."<br><i>The Economist</i> , "Has the Ideas Machine Broken Down?"<br>1/12/13.  |                    |
| 2/18   | Empirics & Policy                        | Mankiw, Ch. 9.2-9.3.<br>Fernald and Wang, "The Recent Rise and Fall of Rapid Productivity Growth," FRBSF <i>Economic Letters</i> , 2/9/15.<br>Liu, "Is China's Growth Miracle Over?" FRBSF <i>Economic Letters</i> , 8/10/15. | Problem Set #3 due |
| 2/23   | <b>Exam #1</b>                           |   |                    |
| <b>The Role of Money</b>                               |  |   |                    |
| 2/25   | The Old View of Money                    | Mankiw, Ch. 4.<br>Goodhart, "The Two Concepts of Money," <i>EJPE</i> , 1998.<br>(only read first two sections)<br>Elias and Jorda, "Crises Before and After the Creation of the Fed," FRBSF <i>Economic Letters</i> , 5/6/13. |                    |
| 3/1  | Quantity Theory                          | Mankiw, Ch. 5.1-5.4.  |                    |
| 3/3  | Classical Dichotomy & Costs of Inflation | Mankiw, Ch. 5.5-5.7 and 10.3-10.4<br>Tutino and Zarazaga, "Inflation is Not Always and Everywhere a Monetary Phenomenon," FRBD <i>Economic Letters</i> , June 2014.   |                    |
| 3/8  | The New View of Money                    | Williams, "Economics Instruction and the Brave New World of Monetary Policy," FRBSF <i>Economic Letters</i> , 6/6/11.<br>Williams, "Monetary Policy, Money and Inflation," FRBSF <i>Economic Letters</i> , 7/9/12.            |                    |
| <b>The Open Economy in the Long Run</b>                |  |   |                    |
| 3/10   | The International Flows of Capital and   | Mankiw, Ch. 6.1 & 6.2<br>Cocibua, "Upstream Capital Flows," FRBD <i>Economic</i>  | Problem Set #4 due |

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|---|---|--|--------------------|
|   | Goods   | <i>Letters</i> , 5/11.   |                    |
| 3/22                                    | NATREX Model & Floating Exchange Rates and PPP            | Mankiw, Ch. 6.3.<br>Parasrampurua and Sposi, "A Real Appreciation for Recent Exchange-Rate Movements, FRBD <i>Economic Letters</i> , 6/15.   |                    |
| 3/24                                    | Fixed Exchange Rates                                      | Stone, et al., "Exchange Rate Regimes: Fixed or Float?" IMF <i>Finance and Development</i> , 2008.<br>Higgins and Klitgaard, "The Balance of Payments Crisis in the Euro Area Periphery," FRBNY <i>Current Issues</i> , 11/2/14. |                    |
| 3/29                                    | Recent Dollar Appreciation & Natural Rate on Unemployment | <i>The Economist</i> , "Worse than Nothing," 2/21/15.<br>Mankiw, Ch. 7.1-7.2.  | Problem Set #5 due |
| 3/31                                    | <b>Exam #2</b>  |  |                    |
| <b>Business Cycles in the Short Run</b> |   |  |                    |
| 4/5                                     | Introduction & Keynesian Cross                            | Mankiw, Ch. 10.1-10.2.<br>Mankiw, Ch. 11.1 (Skip IS curve).  |                    |
| 4/7                                     | IS-LM Model   | Mankiw, Ch. 11.1-11.2.<br><i>The Economist</i> , "A Working Model," 8/11/05.   |                    |
| 4/12                                    | IS-LM Model   | Mankiw, Ch. 12.1.<br><i>The Economist</i> , "Stimulus v Austerity," 9/28/13.<br><i>The Economist</i> , "Much Ado about Multipliers," 9/24/09.  |                    |
| 4/14                                    | AS-AD Model   | Mankiw, Ch. 12.2, 10.4 and 14.1.<br>Murphy, et al., "Plunging Oil Prices: A Boost for the U.S. Economy, a Jolt for Texas," FRBD <i>Economic Letters</i> , 4/15.  | Problem Set #6 due |
| 4/19                                    | The Phillips Curve  | Ch. 14.2.-14.3.<br>Daly, et al., "The Path of Wage Growth and Unemployment," FRBSF <i>Economic Letter</i> , 7/15/23.   |                    |
| 4/21                                    | Stabilization Policy                                      | Mankiw, Ch. 18.<br><i>The Economist</i> , "Rule It Out," 8/8/15.   |                    |
| <b>Rethinking Macroeconomics</b>        |   |  |                    |
| 4/26                                    | Financial Crises and Debt-Deflation                       | Mankiw, Ch. 20.<br>Fisher, "The Debt-Deflation Theory of Great Depressions," <i>Econometrica</i> , 1933.<br><i>The Economist</i> , "Minsky's Moment," 4/2/09.  | Problem Set #7 due |
| 4/28                                    | Wrapping Up   | Glick and Lansing, "Consumers and the Economy: Part 1," FRBSF <i>Economic Letters</i> , 1/10/11.<br>Glick, et al., "What's Different about the Latest Housing Boom?" FRBSF <i>Economic Letters</i> , 11/16/15.                   |                    |
| 5/7                                     | <b>Exam #3 - Saturday, 1:30-3:30 pm</b>                   |  |                    |