Overview

This is a course in introductory macroeconomics, with a strong emphasis on international applications. There are two objectives for this course. The first is to develop simple models of the goods and services, asset, capital, and labor markets which can be usefully applied to generate realistic predictions regarding the behavior of such macroeconomic variables as: output; employment; inflation; the current account; and interest and exchange rates. The second is to apply these models to understand and interpret current and historical macroeconomic developments, primarily in the industrialized OECD countries.

Administrative Minutiae

The techniques will be basically geometric, although algebra will be used throughout. Class communication will be conducted via e-mail outside class. Students should add themselves to the class alias as soon as possible, in order to receive class instructions.

The text for the course is the most recent (fifth) edition of Macroeconomics by Mankiw (though the early editions are quite similar). (Recent editions of) Macroeconomics by Dornbusch and Fischer is a good additional reference, as are the texts by Hall and Taylor, Gordon, Abel and Bernanke, Blanchard, and Barro. In the case of difficult material, students are encouraged to consult another text. In any case, students are strongly urged to read the textbook in advance of the lectures, especially given that grades allocated for in-class participation.

The required readings (outside the text) for the course are not available in a photocopied course reader (though there are required cases in a short reading packet). Instead, students are required to familiarize themselves with all important current and recent macroeconomic developments in countries of relevance. One good way to do this is to read the (daily) Financial Times regularly. Another option is The Economist (a weekly magazine). (Sign-up sheets for both the FT and The Economist with student subscription discounts will be available in the first class; both also have web-sites which are linked through my teaching site). Empirical (as well as theoretical) knowledge of key macroeconomic relationships, data, and policy issues (recent and current) will be considered a prerequisite for passing the course.

Grading

Grades will be allocated on the basis of: in-class participation (20%); three group case write-ups (3 x 10% each); and a final exam (50%). It is sometimes possible to arrange for special assistance for part of the evaluation upon advance application to the instructor.

Optional problem sets will be distributed electronically. These will not be graded, nor are they worth formal credit. However, the names of students who hand in problem sets will be
recorded, and students on the margin of receiving a higher grade will benefit from completing problem sets.

I am open to the idea of formal review sessions, and await the views of the class on this issue. While I will not hold scheduled office hours, I will be available via e-mail and should also be accessible in person before and after most teaching sessions. The teaching assistant will also be available for e-mailed questions, around teaching sessions, and on demand for more formal reviews.

In-class participation grades will be allocated on the basis of quality and quantity of participation. Prompt daily attendance in class is required. (If an absence is required, students should e-mail the instructor in advance.) Students are also required to use name cards and to sit in the same seat throughout the semester. “Cold calls” will be used extensively. Witty heckling of the professor, victimless humor, literary and political allusions, and insightful correct answers are all encouraged and will be suitably rewarded. Students are allowed to opt out of attending (and/or answering cold calls) for one or two sessions without cost, upon appropriate application to the instructor. Students who are uncomfortable answering cold calls after a few weeks should speak to the instructor. Classroom etiquette will be discussed in class.

The three cases for which write-ups are required will be distributed in class or made available on the web. A write-up of no more than 10 word-processed pages can draw mostly or wholly on the case materials, but you’re also allowed to draw on material you find yourself. Groups should have between four and six people (five is optimal).

Any complaints about grading must be submitted in writing within one week of grade issuance.
Tentative Course Outline
(Readings in Mankiw’s text (5th edition) in parentheses)
[tentative class time planned]

I. Introduction to Critical Concepts (1,2) [[Mar 29]

II. Long-Run Relationships
   A. The Level of Output and National Income: Production; Distribution; and Allocation (3) [Mar 29]
   B. Long-Run Trends: Economic Growth, Productivity and Savings (7,8) [Mar 29, Apr 5]
      1. The Solow growth model. Technological change and capital accumulation; accounting for the sources of economic growth.
      2. International differences in growth.
   C. Adding Labor: Unemployment, Employment and Wages in the Long Run (6) [Apr 5]
      1. Frictional and Structural Unemployment. The natural rate of unemployment.
      2. Differences in labor markets across countries and over time. Eurosclerosis.
   D. Adding Asset Markets and the Nominal Side: Inflation, Money and Interest Rates (4) [Apr 12]
      2. Hyperinflation.
   ARGENTINA CASE DUE APR 12
   E. Opening the Economy: Exchange Rates, and the Current Account (5) [Apr 12]
      1. The real exchange rate and the current account.
      2. Theory and evidence on purchasing power parity.

III. Short-Run Business Cycle Fluctuations
   A. Introduction to Aggregate Demand and Aggregate Supply (9) [Apr 19]
      1. Application to oil-price and velocity shocks.
   B. The Multiplier Model (10-1) [Apr 19]
      1. Fiscal Policy.
   C. The Closed Economy IS-LM Model (10-2, 11) [Apr 26]
   OIL CASE DUE APR 26
   D. The Open Economy “Mundell-Fleming” IS-LM Model of Capital Mobility (12) [Apr 26, May 3]
      1. Monetary policy and Mundell’s “Holy Trinity”.
      2. Exchange Rate Regimes.
   E. The Labor Market, Supply Side and the Phillips Curve (13) [May 3]
   F. Economic Policy (14) [May 10]
      1. The European Monetary System and European Monetary Union. 
         Case: The European Currency Crisis of 1992
      2. Rules vs. Discretion, and central bank independence.

EMS CASE DUE MAY 10
G. Conclusion [May 10]
   1. Summary, Roundup and Review

FINAL EXAM