

**INTERMEDIATE MACROECONOMICS  
ECONOMICS 301.002  
FALL 2008**

**AMERICAN UNIVERSITY**

Professor Callahan

119 Roper Hall

(202) 885-3737

E-mail: [colleen@american.edu](mailto:colleen@american.edu)

*Office Hours: Mondays and Thursdays 10:30 – 12  
and by appointment*

**GOALS OF THE COURSE**

Macroeconomics is the study of the economy as a whole and is concerned with some of the most important questions in economics. Why are some nations rich while others are poor? Why do some economies grow faster than others? Why was there a slowdown in the US economy in 2008? Have policymakers contributed to an economic recovery? What are the risks of inflation to the global economy? What causes the value of the dollar to fluctuate in international currency markets? Is our long-term economic well-being threatened by the growing US budget and trade deficits? Our goal in this course is to answer these questions using the various models developed by macroeconomists and to understand the strengths and limitations of each model.

**By the end of this course, you should be able to:**

- explain how to measure economic activity and how to evaluate economic performance.
- describe a core of practical macroeconomics in which we should all believe.
- use the Solow growth model to discuss reasons for the long term improvement in the standard of living.
- evaluate the significance of a trade deficit or surplus an economy.
- present a well-reasoned view of the costs and benefits of a persistent and growing federal budget deficit.
- analyze the short run fluctuations in the economy using models of aggregate demand (IS-LM) and aggregate supply in both a closed and open economy
- decide if active monetary and fiscal policy can reliably improve economic performance.
- apply macroeconomic theory to a major event such as the Great Depression.

## **REQUIRED TEXTS**

Abel, Andrew, Ben Bernanke and Dean Croushore. Macroeconomics. (New York: Pearson/Addison-Wesley, 2008.) Sixth edition.

You must also regularly check the Blackboard site for this course at <https://blackboard.american.edu>. All assignments will be posted there.

## **REQUIRED READINGS: ARTICLES LINKED TO BLACKBOARD**

Most of these articles can be accessed via the Blackboard site for this course. They are listed under e-reserves or external links. You should be able to connect to the articles from either an on-campus or off-campus computer.

1. BERNANKE, Ben, "Liquidity Provision by the Federal Reserve," a speech given May 13, 2008, The Federal Reserve Board of Governors. (under "external links")
2. WARSH, Kevin, "The Federal Funds Rate in Extraordinary Times," a speech given May 21, 2008, The Federal Reserve Board of Governors. (under "external links")
3. BERNANKE, Ben, "The Recent Financial Turmoil and Its Economic and Policy Consequences," a speech given in October 2007, The Federal Reserve Board of Governors. (under "external links")
4. BOSWORTH, Barry and Susan M. Collins, "Accounting for Growth: Comparing China and India," Journal of Economic Perspectives, Winter 2008.
5. "Mission Creep at the Fed," The Economist, Aug. 7, 2008.
6. NBER "Business Cycle Dating Procedures," at [www.nber.org](http://www.nber.org) (connect via Blackboard—look under external links)
7. FRIEDMAN, Milton. (no title) in Lives of the Laureates, Fourth edition, William Breit and Roger W. Spencer eds., Cambridge: The MIT Press, 2004, pp. 65-77. (on e-reserve)
8. TOBIN, James. "Beginning with Keynes at Harvard," in Lives of the Laureates, Fourth edition, William Breit and Roger W. Spencer eds., Cambridge: The MIT Press, 2004, pp. 95-113. (on e-reserve)
9. SOLOW, Robert M. (no title) in Lives of the Laureates, Fourth edition, William Breit and Roger W. Spencer eds., Cambridge: The MIT Press, 2004, pp. 153-170. (on e-reserve)

10. BLAUG, MARK. Talking to Leading Economists about Keynes, pp. 55-89. (on e-reserve)
11. CONGRESSIONAL BUDGET OFFICE. "Sources of the Growth and Decline in Individual Income Tax Revenues Since 1994," May 2008. (under "external links")
12. Monetary Policy Report to the Congress, Testimony on July 15, 2008, The Federal Reserve Board of Governors. (under "external links")
13. BERNANKE, Ben. "Global Financial Integration," a speech given in August 2006, The Federal Reserve Board of Governors. (under "external links")
14. ROMER, Christina. "The Nation in Depression," Journal of Economic Perspectives, Spring 1993, pp. 19-39.
15. SOLOW, Robert. "Is There a Core of Usable Macroeconomics We Should All Believe In?" American Economic Review, May 1997, pp. 230-32.
16. TAYLOR, John B. "A Core of Practical Macroeconomics," American Economic Review, May 1997, pp. 233-35.
17. BLINDER, Alan. "Is There a Core of Practical Macroeconomics That We Should All Believe?" American Economic Review, May 1997, pp. 240-43.
18. BLANCHARD, Olivier. "Is There a Core of Usable Macroeconomics?" American Economic Review, May 1997, pp. 244-46.

## **EVALUATION**

You will be evaluated in a variety of ways over the semester. The combination of problem sets, writing assignments, and class discussions along with the midterms and final exam should allow each student to demonstrate her or his understanding of macroeconomics in many different dimensions. Also, remember that your attendance and participation in group exercises are very important to your learning in this course. Lack of regular attendance could significantly lower your final grade. If you have questions about the ways in which you are being evaluated during the semester, please stop by and visit with me during office hours.

## **ASSIGNMENTS AND EXAMS**

	<u>Weight in final grade</u>
Class attendance and participation/presentations	10%
Two writing assignments (3-4 pages)	20%
Problem sets (3)	10%
Exams I and II	30%
Final exam (comprehensive)	30%

## **IMPORTANT DATES**

Monday, Sept. 15	PROBLEM SET # 1 DUE
Monday, Sept. 29	PROBLEM SET # 2 DUE
Monday, Oct. 6	EXAM # 1
Monday, Oct. 13	WRITING ASSIGNMENT # 1 DUE
Thursday, Oct. 30	PROBLEM SET # 3 DUE
Thursday, Nov. 6	EXAM # 2
Monday, Nov. 24	WRITING ASSIGNMENT # 2 DUE
Monday, Dec. 8	FINAL EXAM (8:30 – 11:00)

**ACADEMIC INTEGRITY:** Standards of academic conduct are set forth in the University's Academic Integrity Code. By registering at the university, you have acknowledged your awareness of the Academic Integrity Code and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the Academic Integrity Code will not be treated lightly, and disciplinary actions will be taken should such violations occur. Please see me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course.

## **IF YOU NEED HELP**

Please contact me as soon as possible either by e-mail, by telephone, or by visiting my office. Together we can develop a plan to address whatever problems you may be experiencing.

**SCHEDULE OF TOPICS  
FALL 2008**

Monday, Aug. 25                      Welcome, Introduction, and Overview  
Chapter 1, *Introduction to Macroeconomics*  
Chapter 2, *National Income Accounting*

**LONG RUN ECONOMIC PERFORMANCE**

Thursday, Aug. 28                      Chapter 2 (continued)

Monday, Sept. 1                        LABOR DAY (No class)

Thursday, Sept. 4                      Chapter 3, *Productivity, Output and Employment*

Monday, Sept. 8                        Chapter 3 (continued)

Thursday, Sept. 11                      Chapter 4, *Consumption, Saving, and Investment*

Monday, Sept. 15                        Chapter 4 (continued)

**PROBLEM SET # 1 DUE: Monday, Sept. 15 (in class)**

Thursday, Sept. 18                      Chapter 5, *Saving and Investment in the Open Economy*

Monday, Sept. 22                        Chapter 5 (continued)

Thursday, Sept. 25                      Chapter 6, *Economic growth in the long run*

Monday, Sept. 29                        Chapter 6 (continued)

**PROBLEM SET # 2 DUE: Monday, Sept. 29 (in class)**

Thursday, Oct. 2                        Chapter 6 (continued) and  
READING: *Bosworth and Collins, "Accounting for  
Growth"*

Monday, Oct. 6                         **EXAM # 1**

Thursday, Oct. 9                        Chapter 7, *The asset market*

Monday, Oct. 13

Chapter 7 (continued)

**WRITING ASSIGNMENT # 1 DUE: Monday, Oct 13.**

**THE ECONOMY IN THE SHORT RUN**

Thursday, Oct. 16

Chapter 8, *Business Cycles: An Overview*  
and

READING: *NBER Business Cycle Dating Procedures*

Monday, Oct. 20

Chapter 9, *The IS/LM model*

Thursday, Oct. 23

Chapter 9 (continued), *Applications of the IS/LM model*  
and

READING: *Blaug, "Talking to Leading Economists about Keynes"*

Monday, Oct. 27

Chapter 9 (continued), *The IS/LM model and the AS/AD*  
*Model and*

READING: *CBO, "Sources of Growth and Decline in Individual Income Tax Revenues Since 1994"*

Thursday, Oct. 30

Chapter 11, *Keynesianism: the macroeconomics of wage*  
*and price rigidity*

READING: *Romer, "Nation in depression"*

**PROBLEM SET # 3 DUE: Thursday, Oct. 30 (in class)**

Monday, Nov. 3

Chapter 11 (continued)

Discussion of readings: *Friedman, Tobin, Solow*

Thursday, Nov. 6

**EXAM # 2**

Monday, Nov. 10	Chapter 13, <i>Exchange Rates and Macroeconomic Policy in the Open Economy</i> and READING: “ <i>Global Economic Integration</i> ”
Thursday, Nov. 13	Chapter 13 (continued)
Monday, Nov. 17	Chapter 14, <i>Monetary Policy and the Federal Reserve System</i> READING: “ <i>Mission Creep at the Fed</i> ” and <i>Bernanke, “Recent Financial Market Turmoil”</i>
Thursday, Nov. 20	Chapter 14 (continued) READING: “ <i>Monetary Policy Report to the Congress</i> ”
Monday, Nov. 24	Chapter 14 (continued) READING: <i>Bernanke, “Liquidity Provision”</i> and <i>Warsh, “The Federal Funds Rate”</i>
	<b>WRITING ASSIGNMENT # 2 DUE: Monday, Nov. 24 (in class)</b>
Thursday, Nov. 27	THANKSGIVING (No class)
Monday, Dec. 1	Chapter 15, <i>Government Spending and Its Financing</i>
Thursday, Dec. 4	Wrap Up: The Core of Macroeconomics <i>Discussion of readings: Solow, Blanchard, Taylor and Blinder</i>
Monday, Dec. 8	<b>FINAL EXAM (2:10-4:40)</b>