

ECON-501

Macroeconomics

American University
Department of Economics
Fall 2008
Time: Weds. 5:30-8:00 p.m.
Room: Ward 3

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Office Hours: Mon. 2-4 pm
Weds. 3-5 pm, Fri. 10 am-12 noon

Syllabus

This is a master's level course in macroeconomic theory and policy analysis; it is also open to advanced undergraduates who meet the requirements and is especially encouraged for honors students and students in the B.S. in economics program. The *required* prerequisites are Introduction to Mathematical Economics (ECON-505, which may be taken concurrently, and which in turn has a calculus prerequisite) and intermediate-level, undergraduate macro theory (ECON-301 or 603 or the equivalent at another university). The latter may be waived by the instructor for undergraduate students taking this as a substitute for 301 (though you must then have had ECON-100). Background in statistics and econometrics is helpful, but not required.

Macroeconomics is the study of aggregate economic performance, including income and employment determination, output and the price level, unemployment and inflation, long-run economic growth, exchange rates, the balance of payments, and the effects of monetary and fiscal policies. Macroeconomics also studies the behavior of financial markets, labor markets, and certain types of economic agents (such as consumers, savers, and investors), including how these agents form their expectations. This is a rigorous and technically demanding course, which emphasizes the theoretical models that economists use to analyze macroeconomic issues.

Macroeconomic theories are intended to be applied to the "real world," and we will evaluate how well the theories we study explain actual macroeconomic performance. We will discuss the application of these theories to current policy issues, such as the impact of the housing/financial crisis, the effects of energy and food price "shocks," and the possibility of a recession. The course will emphasize the economic logic (intuition) behind the mathematical models, as well as an appreciation of the assumptions that underlie the theories and how well these assumptions do (or do not) fit actual economic conditions.

Class Website

A class website will be created using Blackboard (<http://blackboard.american.edu>). The website will contain this syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to some required readings and related websites). The website will also be used for sending e-mail messages to class participants; I will use this feature extensively to make announcements. You are responsible for accessing the class website and checking it (and your e-mail) regularly. By default, the Blackboard system sends e-mail to your official

@student.american.edu address; if you wish you may have your e-mails forwarded to another e-mail address, or you may change the default e-mail address in your personal settings in Blackboard. *It is **your** responsibility to make sure you are enrolled in the course Blackboard website and to configure (and **check!**) your e-mail so that you receive messages for this course.*

Books and References

The following two books are **on sale at the Campus Store**:

Olivier Blanchard, *Macroeconomics*, fifth edition, Upper Saddle River, NJ: Pearson/Prentice-Hall, 2009 (ISBN13: 978-0-13-207829-0). [**required**]

Thomas R. Michl, *Macroeconomic Theory: A Short Course*, Armonk, NY: M.E. Sharpe, 2002 (ISBN10: 0-7656-1142-2). [**recommended**]

NOTE: ISBN numbers are provided in case you prefer to order these on-line, to make sure you get the right books.

The following other books will be placed **on reserve at the library** for reference purposes (some of them contain required chapters as specified in the reading list below):

Barry P. Bosworth, *Saving and Investment in a Global Economy*, Washington, DC: Brookings Institution, 1993.

Gary A. Dymski, et al. (editors), *Transforming the U.S. Financial System*, Armonk, NY: M. E. Sharpe, 1993.

Gerald A. Epstein & Herbert M. Gintis (editors), *Macroeconomic Policy After the Conservative Era*, New York: Cambridge University Press, 1995.

Alan B. Krueger and Robert M. Solow, editors, *The Roaring Nineties : Can Full Employment Be Sustained?* New York : Russell Sage : Century Foundation Press, 2001.

Robert Pollin (editor), *The Macroeconomics of Saving, Investment, and Finance*, Ann Arbor: University of Michigan Press, 1997.

Brian Snowdon and Howard R. Vane, *Modern Macroeconomics: Its Origins, Development and Current State*, Cheltenham, UK, and Northampton, MA: Edward Elgar, 2005.

Work Requirements and Grading

There will be a midterm and a final exam, and one (short) essay/research assignment. The midterm is *tentatively* scheduled for Weds. October 15. The final exam will be held at the officially scheduled time on **Monday, December 15**. No early or late finals will be given (please plan your holiday travel accordingly; emergencies may be accommodated through incompletes). Problem sets will also be distributed as practice for the exams; problem sets will be *checked* for effort and completeness, but will *not* be given letter grades. However, satisfactory completion of the problem sets *will* count for a portion of the grade. More details on the essay/research assignment will be distributed later; the due date will probably be in late November.

Grades will be weighted as follows:

Problem sets	10%
Midterm	30%
Essay/Research assignment	20%
Final exam	40%

Reading List – *Please Note:*

- Required readings are ***subject to change***—any changes will be announced in class and posted on the class website. More specific assignments in terms of particular pages or sections of chapters will be announced as the term proceeds.
- Some required readings are in the library reserve books listed above; others are available on the class website (either as Course Documents or E-Reserves) or on the internet.
- There will also be class handouts and PowerPoint presentations on some subjects; these will be posted on Blackboard/Course Documents
- Topics I-V constitute the “core” material; we will cover these topics in depth and then cover as many parts of VI as time permits.
- *Optional* readings are indicated with an *.

I. Introduction to Macroeconomic Concepts, Theories, and Issues (1 week)

Blanchard, chapters 1-2 (including appendix to chapter 2), and Appendix 1 at the end of the book.

One of the following: Blanchard, chapter 27, or Snowdon & Vane, chapter 1.

II. The Short Run: Income Determination, Asset Markets, and the IS-LM Model (3-4 weeks)

Blanchard, chapters 3-5, 22, 25.

Michl, chapters 1, 3-6.

David Romer, “Keynesian Macroeconomics Without the LM Curve,” *Journal of Economic Perspectives*, vol. 14, no. 2 (Spring 2000), pp. 149-69. Blackboard/Course Documents.

*David Romer, “Short-Run Fluctuations,” unpublished manuscript, University of California, Berkeley, August 1999, revised January 2006 (download text & figures in 2 files from the author’s homepage, <http://elsa.berkeley.edu/~dromer/>).

*Snowdon & Vane, chapters 2-3, 8.

Dimitri B. Papadimitriou, Greg Hannsgen, and Gennaro Zezza, “Fiscal Stimulus: Is More Needed?” Levy Economics Institute of Bard College, Strategic Analysis, April 2008 (Blackboard/Course Documents or download from www.levy.org).

III. The Medium Run: Aggregate Supply and Demand, Inflation and Unemployment (3-4 weeks)

Blanchard, chapters 6-9, 13, 23-24.

Michl, chapters 2, 7-11.

Jayati Ghosh, “The commodity price roller coaster” *Frontline* (India). (Blackboard/Course Documents)

*Snowdon & Vane, chapters 4-5, 7.

George Akerlof, William Dickens, and George Perry, “Near-Rational Wage and Price Setting and the Long-Run Phillips Curve,” *Brookings Papers on Economic Activity*, 1:2000, pp. 1-60. (Blackboard/E-Reserves)

Ball, Laurence and Robert Moffitt, “Productivity Growth and the Phillips Curve,” in Alan B. Krueger and Robert M. Solow, editors, *The Roaring Nineties : Can Full Employment Be Sustained?* New York : Russell Sage : Century Foundation Press, 2001. (Library reserves—*search under the book title or editors’ names*)

*Mark Setterfield and Kristen Leblond, “The Phillips Curve and U.S. Macroeconomic Performance During the 1990s,” *International Review of Applied Economics*, vol. 17, no. 4 (October 2003), pp. 361-376.

*Mark Setterfield and Ted Lovejoy, “Aspirations, Bargaining Power, and Macroeconomic Performance.” *Journal of Post Keynesian Economics*, vol. 29, no. 1 (Fall 2006), pp. 117-148.

IV. Long-Run Growth and Debt Dynamics (2-3 weeks)

Blanchard, chapters 10-12, 26.

Michl, chapters 15-16.

Snowdon, chapter 11.

Other readings TBA

V. Open Economy Macroeconomics (2 weeks)

Blanchard, chapters 18-21.

Michl, chapters 12-14.

Robert A. Blecker, “Why the U.S. Trade Deficit Persists: The Budget and Trade Deficits are Not Twins,” unpublished manuscript, January 2008. (Blackboard/Course Documents)

*Paul Krugman, “Will There Be a Dollar Crisis?” *Economic Policy*, vol. 22, no. 51 (July 2007), pp. 437-67. (Blackboard/E-Reserves)

*Jeffrey A. Frankel and Shan-Jin Wei, “Assessing China’s Exchange Rate Regime,” *Economic Policy*, vol. 22, no. 51 (July 2007), pp. 575-627. (Blackboard/E-Reserves)

VI. Behavior and Expectations: Consumption, Saving, and Investment (TBA)

Blanchard, chapters 14-17 (required parts TBA).

B. Bosworth, *Saving and Investment in a Global Economy*, chapter 3.

G. Dymski, et al. (editors), *Transforming the U.S. Financial System*, chapter 3 (by Steven M. Fazzari). (Library reserves—*search under the book title or editors’ names*)

Robert A. Blecker, “The Economic Consequences of Dollar Appreciation for U.S. Manufacturing Profits and Investment: A Time-Series Analysis,” *International Review of Applied Economics*, vol. 21, no. 4 (September 2007), pp. 491-517. (Blackboard/E-Reserves)