

# Intermediate Macroeconomics

Fall 2005 Course Syllabus

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**Office Hours:** T TH 8:30-9:30 and W 3:00-4:00

## Texts:

*Economist*, print edition. Students should bring me a check (made out to "Teresa Beckham Gramm") for \$20.00 to pay for a semester subscription to this magazine.

*Wall Street Journal*, print edition. Fill out the order form for a semester (15 week) subscription.

*Macroeconomics*, 5th edition, by Mankiw. **Optional.** On reserve Burrow Library, some copies available at the bookstore if you want them.

**Course Objective:** The objective of this course is to increase the student's understanding of the aggregates in the economy: the interaction of output, employment, and inflation with one another and with government monetary and fiscal policies. Specifically, the models and relationships that we study in this course are the same as those used by policy-makers in making decisions that affect us as individuals. If you decide to become a policy-maker, I want you to have the basis for making informed decisions. If (more likely) you don't plan to run for office or become the next Fed governor, I want you to be informed voters.

**Course Grades:** will be based on the weighted average of the following and attendance, Exam I (25%), Exam II (25%), Exam III (25%), Homework/Graded Assignments (10%), Current Event Analyses (15%).

Grades will be assigned according to the following scale,

93-100% = A	80-82% = B-	67-69% = D+
90-92% = A-	77-79% = C+	63-66% = D
87-89% = B+	73-76% = C	60-62% = D-
83-86% = B	70-72% = C-	59 or below = F

**Exams:** There are two exams and a final. The first is tentatively scheduled for 9/30 and the second is scheduled for 11/2. The final exam will be given during the final exam period on 12/10 at 5:30 in Buckman 110. If it becomes necessary to change an exam date, then I will inform you at least one week in advance. If you are going to miss an exam you must let me know IN ADVANCE, otherwise there will be no make-up exam and the missed weight will go into a specially prepared cumulative final.

**Assignments:** There are two types of assignment.

1) **PROBLEMS** will be distributed at the end of two classes per week. The problem(s) will cover material gone over in that class or a previous class. They are due **AT THE BEGINNING** of the next class period, since we will go over the problem first. You will assign yourself a grade between 0 ("I didn't do it") and 4 ("I did it perfectly") and turn each problem in to me.

- You **MAY**: drop your 3 lowest grades (including unexcused and excused absences).

- You **MAY**: come by with questions about a problem once you have made a valiant attempt on your own, as demonstrated by the reams of scribbling that you'll have with you.
- You **MAY NOT**: come in late and have someone else grade your problem or send your problem with someone else.
- You **MUST** use the green pen and only the green pen provided while the problems are being review. Using any other writing implement for any other purpose during this time will be considered an Honor Code violation. Not reporting someone using a non-green pen is also an Honor Code violation.

2) *CURRENT EVENT ANALYSES* will be due on 3 occasions. More details about what I expect of these written assignments will be forthcoming. The first will be due on 10/14; the second is due on 11/21; the final analysis is due on 12/7. Their purpose is to give you the opportunity to apply one of the theoretical models to a real world events, either to make a prediction of an economic outcome or to explain the cause of an outcome. Again, these will be due at the beginning of class. I will accept them late, but there will be a 5 point penalty for each day the analysis is late.

**Attendance Policy:** The problems will make regular attendance necessary. I do take attendance, but there will be no direct penalty for missing class. The indirect penalty is that you would receive a 0 on the homework problem. If you miss class due to illness, sports, family emergency, etc. then you need to inform me **by email**. You are responsible for all missed material and handouts. I do not repeat lectures during office hours for the benefit of those who missed the regular lecture. I do not "help" people on problems if their lack of understanding is due to missing class.

**Academic Dishonesty:** Any evidence of academic dishonesty may result in your failure of this course. Academic dishonesty includes (1) using exams from previous semesters, (2) using problems from previous semesters, (3) working together on exams, (4) completing the problems as we are going over them in class, or (5) copying (or allowing someone else to copy) any work that is turned in for a grade. You *may* discuss approaches to solving the daily problems, but when it comes time to put pen to paper, the work must be entirely your own.

**Office Hours:** My office is 319 Buckman. I have scheduled office hours for W 3-4 and TTH 8:30-9:30. I strongly encourage you to make an appointment if you have conflicts with these times. The best way to schedule an appointment with me (or contact me for any reason) is by email: [beckham@rhodes.edu](mailto:beckham@rhodes.edu).

**Email:** I assume you check your email at least once a day. I will use it to convey required reading in The Economist and The Wall Street Journal which we will be going over during the next class period. I will not send you "junk" or "FYI" or "Here's a nifty Macro article in case you have a free hour" ...it will always be pertinent to material you need for class.

## Course Outline:

Note that this course is not a pre-requisite for any other course. This fact gives me a bit of leeway about what material we will cover. Invariably, something of economic significance occurs during the semester and we will want to spend time discussing/analyzing it. The only way we'll stick to this schedule is if absolutely nothing of interest occurs over the next 3 months. I will give you periodic updates on how this schedule has changed and you will receive a daily outline on which the roman numerals correspond to the topics below. Given that you've all made it this far in the major, I assume that you can look at the daily outline and look at the syllabus to determine where we are in the material and where we are in the reading.

## Intermediate Macroeconomics

Spring 2005

### Outline of Lectures

#### I. Intro (*Chapter 1*)

Long-run, Medium-run, Short-run models

#### II. National Income Accounting (*Chapter 2*)

A) Production & payment

B) Demand for output

C) Deficits & GDP

Real vs Nominal GDP, Problems w/ CPI

#### III. Growth Theory and Policy

A) Neoclassical Model (Solow Model) (*Chapter 7*)

1) Intro

2) Simple production function & growth (Jap. vs. US)

3) Model, Steady State

4) Changes in  $s$ ,  $n$ , TFP

B) Endogenous Growth (*Chapter 8, pp. 222-226*)

1) Intro

2) Graphical Representation

3) Convergence

C) Growth Policy (*Chapter 8.1 to 8.3 and Appendix pp 229-234*)

#### IV. AS & AD Introduction (*Chapter 3, Chapter 9.1-2*)

A) Intro

B) Shifts in AD, AS

C) Slope of AS

D) Slope of AD

E) Fiscal & monetary policy (w/ flat AS versus steep AS)

F) Policy and AS

#### V. AS & Automatic Adjustment to the Long Run Equilibrium (*Chapter 9.3-9.5*)

A) The National Labor Market

1) Impact of AD decline

2) Sticky wages

B) Deriving the Relationship Between Labor Market Adjustment and AS

C) Contractionary Monetary Policy

D) Supply shocks & Policy

E) Fighting Inflation: SR costs

#### VI. AD Foundations

A. Goods market and the IS curve (*Chapter 10.1*)

1. The Keynesian Cross

2. Equilibrium in the market for Loanable Funds

3. IS Curve

- a. Two derivations
    - b. Fiscal policy
  - B. Money Market and the LM curve (*Chapter 10.2*)
    - 1. Money market equilibrium
      - a. Money supply
      - b. Money demand
      - c. Equilibrium
    - 2. Deriving the LM curve
      - a. Derivation
      - b. Monetary Policy
  - C. Equilibrium in the Goods and Money Markets (*Chapter 10.3*)
    - 1. Graphically
    - 2. Equations
    - 3. Policy Impact
      - a. Impact of a change in fiscal policy
        - Graphically
        - Equations
      - b. Impact of a change in monetary policy
        - Graphically
        - Equations
  - D. Slope of IS & LM (*Chapter 11*)
    - 1. IS Slope
      - a. MPC and IS slope
      - b. I sensitivity to interest rates and IS slope
      - c. Fiscal policy effectiveness and the slope of the IS curve
      - d. Monetary policy effectiveness and the slope of the IS curve
    - 2. LM slope
      - a. Money demand sensitivity to changes in interest rates
      - b. Money demand sensitivity to changes in income
      - c. Policy effectiveness and the slope of the LM curve
  - E. Deriving the AD
    - 1. How a change in price level is reflected in IS-LM
    - 2. Derivation of AD
  - F. Recap...why we look at IS-LM model
- VII. Open Economy Macro (*Chapter 5*)
- A. Balance of Payments
    - 1. Current Account
    - 2. Capital Account
    - 3. Should we worry about a CA deficit?
    - 4. Solutions to reduce the CA deficit
  - B. Exchange rates
    - 1. Definition: It's just a price!
    - 2. Exchange rate appreciation/depreciation
    - 3. Exchange rate and Trade
    - 4. Purchasing power parity and the real exchange rate
  - C. Goods Market Equilibrium and the Balance of Trade (*Chapter 12*)
    - 1. Equation
    - 2. Graphically
  - D. Capital Flows
    - 1.  $i_f$  vs  $i$
    - 2. K flows and the BOP
    - 3. Policy implications...now changes in money supply affect KA
  - E. Internal and external Balance
  - F. Adjusting to External Balance
  - G. Policy in an open Economy
    - 1. Fiscal Policy
    - 2. Monetary policy

### VIII. The Fed (*Chapter 18.1 and class notes*)

- A) Control over the money supply
  - 1) Fractional reserve system
  - 2) Model of money supply
- B) Three instruments of monetary policy
  - 1) OMO
  - 2) Reserve requirements
  - 3) Discount rate
- C) Organization and function of the Fed
  - 1) Organization
  - 2) Functions
    - (a) Form and implement monetary policy
    - (b) Supervision and regulation of the banking system
    - (c) Facilitation of the payments mechanism
    - (d) Fiscal agent for the government
- D) Fed independence
  - 1) Distribution of power
  - 2) How independent is the Fed really?
  - 3) Arguments for independence
  - 4) Arguments against

### IX. Stabilization policy (*Chapter 14*)

- A) Great Depression
  - 1) History
  - 2) Lessons Learned
  - 3) Lessons Applied
- B) *Commanding Heights: Battle of ideas*
- C) Difficulties and Complications in formulating and implementing stabilization policy
  - 1) Lags
  - 2) Uncertainty about expectations
  - 3) Uncertainty about multipliers
  - 4) Uncertainty about other shocks hitting the economy
- D) Rules and Autostabilizers
  - 1) Autostabilization
  - 2) Rules
    - (a) Federal Govt
    - (b) Fed
  - 3) Fed Targets: Money supply vs interest rates
- E) Case Study: Japan

### X. Government Debt

- A) Definition
- B) Impact of Government Debt on the Economy—Traditional Analysis
  - 1) Long run
  - 2) Short run
- C) Ricardian Equivalence

### XI. Deficits and Inflation

- A) Review Accommodating Policy
- B) Financing the Deficit Through the Central Bank
- C) Inflation Tax and Wage indexation
- D) Hyperinflation
  - 1) Costs
  - 2) How to end a hyper (or high) inflation (Quantity Theory of Money)

### XII. What Macroeconomics Can and Cannot Tell Us