

# Intermediate Macroeconomics

## GOALS

Macroeconomics is the study of the behavior of large collections of economic agents. It focuses on the aggregate behavior of consumers and firms, the behavior of governments, the overall economic activity in individual countries, the economic interactions among nations, etc.

Macroeconomists are motivated by large questions and by issues that affect many people and many nations of the world. Why are some countries exceedingly rich while others are exceedingly poor? Why are there fluctuations in aggregate economic activity?

The purpose of this course is to provide a modern treatment of undergraduate macroeconomics. Modern macroeconomics analyzes issues associated with long-run growth and business cycles, using models that are built up from microeconomic principles. The primary questions of interest to macroeconomists involve the causes of long-run growth and business cycles and the appropriate role for government policy in influencing the performance of the economy. Building models from microeconomic principles is important, because this will more often give us the correct answers to questions regarding the effects of changes in economic policy.

The course will entail an introduction of the issues confronted by macroeconomists and the measurement of the Macroeconomy; understanding the mechanisms for long-term economic growth; investigating the behavior of consumers and firms using a static model; introducing dynamics by studying the workhorse two-period intertemporal model. Last, but not least, an added goal of the course is to test important theoretical results on real-world data and examples.

## EVALUATION

Given the course's format, I expect you to read in advance the material for every session. Active participation is encouraged; my assessment of class participation will include the comments on real-world issues which are parallel to the course's material, and relevant contributions to class discussion.

There will be 6 homework assignments. They will be posted on the course's website. All problem sets should be typed, yet graphs and algebra can be hand-written as long as they are clear and legible. Your lowest homework grade will be dropped. Late assignments will not be accepted under any circumstance.

There will be two midterm exams and one final exam. All exams will be cumulative. Your final grade in the class will be determined as the following weighted average of your work throughout the semester

Participation	10%
Problem Sets	10%
Midterm Exam I	25%
Midterm Exam II	25%
Final Exam	30%

## TEXTBOOK

**Williamson, Stephen D.** *Macroeconomics*. Addison-Wesley, 2008 (3<sup>rd</sup> edition).

Williamson (hereafter W2008) is the required text for this course. Alternative sources such as electronic notes and other useful texts will be posted electronically on the course's website. Moreover, we will study scientific papers published in top economic journals to improve our understanding of the materials.

Lectures and text readings are complements, not substitutes, and students are responsible for material presented in both lectures and readings. Regular class attendance is strongly advised.

## COURSE OUTLINE

The material that will be covered is summarized below. For sure I will cover parts I through V; the material in Part VI is optional and will be covered as a function of the remaining time and your interest in the topics.

### I Introduction and Measurement

Introduction, W2008 Ch. 1

**Phelps, Edmund S.** "Macroeconomics for a Modern Economy." *American Economic Review*, June 2007, 97(3), pp. 543-61.

### II Measurement

Measurement, W2008 Ch. 2

Business Cycle Measurement, W2008 Ch. 3

**Romer, Christina D.** "Changes in Business Cycles: Evidence and Explanations." *Journal of Economic Perspectives*, Spring 1999, 13(2), pp. 23-44.

### III A One-Period Model

Consumer and Firm Behavior: The Work-Leisure Decision, W2008 Ch. 4

A Closed-Economy One-Period Macroeconomic Model, W2008 Ch. 5

**Prescott, Edward C.** "Why Do Americans Work So Much More than Europeans?" *Federal Reserve Bank of Minneapolis*, July 2004, 28(1), pp. 2-13.

## **IV Economic Growth**

Economic Growth: Malthus to Solow, W2008 Ch. 6

Income Disparity among Countries and Endogenous Growth, W2008 Ch. 7

**Romer, Paul M.** “Why, Indeed, in America? Theory, History, and the Origins of Modern Economic Growth.” *American Economic Review*, May 1996, 86(2), pp. 202-206.

## **V A Two-Period Model**

A Two-Period Model: The Consumption-Savings Decision, W2008 Ch. 8

A Real Intertemporal Model with Investment, W2008 Ch. 9

**Kydland, Finn E.** “Quantitative Aggregate Economics.” *American Economic Review*, December 2006, 96(5), pp. 1373-83.

## **VI Miscellaneous Reading**

If time permits, some of the following topics will be covered:

A Monetary Intertemporal Model, W2008 Ch. 10

Market-Clearing Models of the Business Cycle, W2008 Ch. 11

Keynesian Business Cycle Theory, W2008 Ch. 12

*Good Luck!*