Economics 243A: Intermediate Macroeconomics Fall, 2006

Instructor: Professor Mark Hopkins Phone: 337-6677

Office: 108A Glatfelter Email: mhopkins@gettysburg.edu

Office Hours: Monday 2pm – 5pm & by appointment

Where is the economy headed? As this semester starts, heated debates are occurring regarding the priorities of the country and the state of the economy. Is the economy strong, or is it headed back towards recession? Does the Federal Reserve need to raise interest rates some more? What effect have rising gasoline prices had on the state of the economy? Will they lead to inflation? How can GDP growth be so strong, while the real median family income has actually *fallen* slightly? Are we saving enough or borrowing too much? Will the United States continue to be the predominant economic super-power in the world, or will it be overtaken by China? Should we be worried about the U.S. trade deficit? Why? Is the dollar headed for a financial crash? How should we think about these issues?

Course subject matter: This is a course in <u>macroeconomic</u> theory, which explores the *effect of* the *aggregate* decisions made by consumers and firms, in contrast to <u>microeconomics</u>, which studies the *reasons for* their *individual* behavior. In this course we will discuss issues relating to both long-run economic growth and short run business cycles, and the role government policies can have (or not have) in affecting each. Additional topics that may be discussed are the role of international markets (and the implications of trade deficits and capital flows), social security reform, the role of technology in the "new economy," and the historical macroeconomic lessons we can draw from the experiences of the U.S. and other major world economies.

Course objectives: This is an intermediate level course designed for majors and others who have already taken the macro principles class Econ 104. Students are assumed to have already a basic familiarity with the issues, concepts, and terminology of macroeconomics. *A facility with algebra and mathematical reasoning is also essential*, as mathematics has become an integral aspect of modern economic theory. Knowledge of calculus is not required, but as always, is likely to be helpful.

The goals of the course are twofold. First, we will expand on topics from your intro econ classes in more depth and detail. (For example, your principles course should have explained what the Federal Reserve does; *this* course will explain <u>how</u> and <u>why</u> their actions have the specific effects that they do). The goal is for you to be able to explain current economic policy and its implications intelligently in friendly conversations, job interviews...or when you run for political office.

Second, this course will provide a window into how professional economists reason, to provide grounding for those students who decide to continue in graduate school in economics, business, public policy, or related fields. Because the economy is far too complex for anyone to fully understand, economics is based on developing and studying models that "behave like" the economy in very specific aspects. *This course will focus on understanding these models*. Although the goal of the course is primarily to teach you economic models and theory, we will do so with as many practical applications as possible.

Evaluation: Homeworks (15% total)

Preparation & Participation, particularly during presentations & discussions (20%)

Midterm (25%) and final exam (25%)

Research paper (15%)

• **Homeworks:** There will be 4-6 problem sets assigned over the semester (roughly every two weeks) to help you learn the material and practice your newly acquired modeling skills. It is more important that you attempt to complete these assignments than whether you get them exactly right. **Collaboration in study groups is encouraged**, but individual answers to all questions are required.

- Your **participation grade** will be based on three factors: contributions offered to classroom discussion, your performance while giving, and participation while listening to class presentations.
- In-class Presentations: To help break up my lectures on the textbook theory, a number of classes will be devoted to discussions of key macroeconomic issues and debates, each led by of a panel of 3-4 students. Grades will be given to both the quality of your introductory presentation and your ability to keep discussion going throughout the class. Being on a panel entails
 - 1) Being familiar with the <u>assigned</u> reading
 - 2) Looking for <u>other</u> sources (e.g., *The Economist, The New York Times*, articles, etc.) for data, background, and ideas to present to the class.
 - 3) Giving a group presentation on the subject (under 15 minutes)
 - 4) Helping provoke a class discussion of the issue with ideas / questions / facts / etc.

(A good way to promote discussion might be for the panel folks to divide up and take different "viewpoints" on the issue, to keep discussion lively).

- Exams: The midterm exam will cover the first half of the course, while the final exam will focus principally on the second half of the course. However, mastery of the first half material will be assumed, and may be required to answer questions in the final.
- **Research paper:** This is a short (6 10 pages double-spaced) paper in which you analyze a macroeconomic topic you find interesting. This could be, for example, a current political issue such as the Bush tax cuts, increasing military spending, social security reform, the effects of rising U.S. inequality, the trade deficit, the impact of the war on terrorism or of the effect of the internet on economic growth. But the topic can be on anything you like related to macroeconomics, but it should involve both a clear question and an attempt to answer it. Using data to answer your question either in statistics or in tables and/or graphs is strongly encouraged.

A good paper takes time to research and write, so you should try to get started in a few weeks with an idea. Since procrastination is a given among college students, here are three deadlines:

- o By September 30: state a question (one sentence), then say how you intend to answer it.
- O By October 30: one page outline of the paper, with a bibliography (at least 5 sources, no more than 3 can be from the internet)
- o Paper due: last day of class.

Readings: The principal text for this course will be

• Blanchard, Oliver. *Macroeconomics* (4th edition). (Prentice Hall)(denoted by "**M**")

To flesh out the material in Blanchard, we will also reading parts of two "popular" economics books:

• Stiglitz, Jospeh. *The Roaring Nineties* (Norton)

(denoted by "RN")

• Krugman, Paul. *The Accidental Theorist*. (Norton).

(denoted by "AT")

Course Schedule

Week 1 Tues 8/29 Introduction to the class

Review: **RN**, Preface & **AT**, Introduction

Thur. 8/31 Introduction to Macroeconomic Theory

Read: **RN**, Chapter 1; **AT**, pp. 18-27

Review: M Chapters 1 & 2

MACRO IN THE LONG-RUN: THE ECONOMICS OF GROWTH IN SUPPLY

Week 2	Tues. 9/5	An Introduction to the Long-Run Read: M Chap. 10;
	Thurs. 9/7	The Neoclassical (or Solow) Growth model of Capital Accumulation Read: M Chap. 11
Week 3	Tues. 9/12	Technology, Labor Productivity, and the role of the Government Read: M Chap. 12; AT , Part 4 (pp. 97-134)
	Thurs. 9/14	Panel #1: Are we in a "New Economy"? Read: RN, Chapter 8 Assignment #1 due

THE SHORT-RUN ECONOMICS OF AGGREGATE DEMAND (FIXED PRICES ASSUMED)

Week 4	Tues. 9/19	National Income Accounting $(Y = C+I+G+NX)$ Read: M Chap. 3, AT, pp. 28-38.
	Thurs. 9/21	Financial Markets Read: M Chap. 4, AT , pp. 66-70.
Week 5	Tues. 9/26	The IS/LM Model Read: M Chap. 5
	Thurs. 9/28	Monetary & Fiscal Policy Read: AT, pp. 41-65; RN, Chapters 2 and 3 Assignment #2 due; Paper proposals due
Week 6	Tues. 10/3	Panel #2: U.S. Fiscal Policy: Tax Cuts or Deficits? Read: AT, pp.167-178, pp.43-65, RN Chapter 7; Economic Report of the President, 2006, Chapter 5
	Thurs. 10/5	Review
Week 7	Tues. 10/10	** READING DAY **
	Thurs. 10/12	Mid-term Exam

THE MEDIUM-RUN ECONOMY (ALLOWING FOR PRICE INFLATION...)

Week 8	Tues. 10/17	Factor Markets, Unemployment, and Aggregate Supp Read: M Chap. 6	
	Thurs. 10/19	Medium-Run Equilibrium: AS & AD model Read: M Chap. 7	
Week 9	Tues. 10/24	Monetary Policy, Credibility, & The Phillips Curve Read: M Chap. 8 & pp.514-18;	

Thurs. 10/26 **Panel #3**: Depression! Could it happen again? Read: **M** Chap. 22

TOPIC #1: FINANCIAL MARKETS

Week 10	Tues. 10/31	The role of expectations in macroeconomics Read: M Chap. 14	
	Thurs. 11/2	Wall Street Economics Read: M Chap. 15, 16.2. RN , Chapters 5-6	
Week 11	Tues. 11/7	Panel #4: Bubble Economics Read: RN, Chapters 4, 5 & 6	
	Thurs. 11/9	Panel #5: Debt, Hyperinflation and Collapse in Latin America Read: M Chap 23; AT, Part 5	
Week 12	Tues. 11/14	Panel #6: The Stock Market: What's the Big Deal Anyway? Read: M , Chapter 16 & TBA (to be announced)	
	Thurs. 11/16	Panel #7: Recommendations for Monetary Policy Read: M, Chapter 17, 25 & to be announced	

TOPIC #2: GLOBALIZATION OF THE MACROECONOMY

Week 13	Tues. 11/21	The Balance of Payments Read: M Chap. 18
	Wed 11/23	HAPPY THANKSGIVING!
Week 14	Tues. 11/28	Economic policy in an Open Economy Read: M Chap. 20, AT Part 3
	Thurs. 11/30	Exchange Rate Regimes Read: M Chap. 21
Week 15	Tues. 12/5	Panel #8: Globalization: Friend or Foe? Read: AT Part 3; RN Chapter 9
	Thurs. 12/7	Course Summation & Review