ECO 601 - Fall 2014
Macroeconomic Analysis

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Class Website: www.emuonline.edu
Class: Tuesday 6:30-9:10 p.m.
Office Hours: MTW 12:30-3:00 p.m.
and by appointment

"There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen."

> *-Frédéric Bastiat (1801-1850)*

"There is no such thing as a free lunch."

> *-Milton Friedman (1912-2006)*

Description

This class covers advanced topics in macroeconomics, which include the study of long-run economic growth, short-term fluctuations and related policy issues. I intend for this course to serve as a basis for further study and research in the field of macroeconomics as well as other related fields. The goal is to learn the tools and techniques used in current theoretical and empirical macroeconomics. Moreover, I will attempt to bridge the gap between economic theory and empirical applications.

Prerequisites: ECO 411 and ECO 412, or equivalent
Corequisites: ECO 415 and ECO 511, or equivalent

Textbook and Readings

In my view there is not a perfect textbook for this class. Graduate level textbooks are often mathematically sophisticated or rely too heavily on graphing. We will use the following textbook for the basis of this course:

Romer, David, <u>Advanced Macroeconomics</u>, Mcgraw-Hill.

I will be using the 4th edition of this book; however, the 3rd edition will also work for this course. Although this textbook is geared more for Ph.D. level courses we will focus on only certain sections. I will provide supplementary readings for chapters that are overly sophisticated. For more background knowledge there are many intermediate textbooks that you may find helpful (e.g., Froyen, Mankiw, Blanchard, Abel and Bernanke, Barro or Jones).

I will post assigned outside readings on www.emuonline.edu. Students are also encouraged to keep up-to date on current event issues as they will be discussed throughout the course. Good sources for current event topics include *The Economist* and *The Wall Street Journal*. There are also a number of good blogs devoted to economics (e.g. http://gregmankiw.blogspot.com/).

Grading

Your grade will be based on a midterm exam (100 points), final exam (100 points), problem sets (50 points), and seminar project (50 points). The grading scale for the course is as follows:

A..........93-100%   C+..........76-79%
A-..........90-92%   C..........73-75%
B+..........86-89%   C-..........70-72%
B..........83-85%   F..........0-69%
B-..........80-82%

Exams

There will one midterm exam and one final exam. The final exam is not comprehensive and will cover the material succeeding the midterm. The exams will cover materials from lecture, textbook, problem sets and any additional assigned readings. Each exam will consists of short and long answer questions, including problems. Tentative dates for the exams will be given in class.

Problem Sets

I aim to assign one problem set for each main topic. The problem sets are designed to prepare you to do well on the exams. You're encouraged to work in groups, but must each turn in a problem set that is your own work (exceptions will be announced in class). Problem sets will be assigned a grade from 0-10 based on an impression of your work. (Note that this means presentation matters: your grade will be affected if I can't read your writing, you don't show your work, etc.). As a general rule, most of you should receive grades of 8 or 9 on most problem sets. If you are consistently receiving grades below 6 and are really trying, you should discuss your situation with me.

Also note that this means that I do not provide detailed feedback by writing comments individually on your problem sets. I do, however, hand out a detailed answer key for each problem set. You're responsible for going over the answer key, comparing it to what you turned in, and understanding the differences. It may be helpful to do this in groups. Grades on problem sets are final and will not be changed.

Seminar

The seminar will give students a chance to research a topic in economics they find interesting. Each student will be responsible to review, summarize and present a scholarly paper to the class. The presentations will be given toward the end of the course. Your first task is to identify three scholarly papers that you would like to review and present. The papers should include a theoretical section, meaning a mathematical model, and an empirical section. You should look for articles on topics that interest you and are at a level you will be able to understand and explain. This task might be more difficult than you think so I suggest you get started on it early.

Any academic, economics journal may be used as a source. An excellent resource include the journals on-line at www.JSTOR.org. The Journal of Economic Perspectives is another good place to start. It has relatively non-technical surveys that reference other important papers in a particular area. You might also consider a working paper from NBER.

Classroom Conduct

Any successful learning experience requires mutual respect. Neither instructor nor student should be subject to behavior that is rude, disruptive, intimidating, or demeaning. Views may differ on what counts as rudeness or courtesy. If you are not sure what constitutes good conduct in this classroom, ask the instructor. The instructor has primary responsibility for and control over classroom behavior and maintenance of academic integrity.

Students are expected to adhere to the standards and expectations detailed in the Student Code of Conduct. In addition, cell phones, side conversations, tardiness, foul language, and the use of open laptops and ipads/tablets for purposes other than for class will not be tolerated. These are very disruptive to students and if the problem persists I will ask you to leave. If you are caught cheating I will give you a zero for that assignment/exam and if the problem persists I will take further action.

Disability Concerns

It is my goal that this class be an accessible and welcoming experience for all students, including those with disabilities that may affect their learning in this class. If you believe you may have trouble participating or effectively demonstrating learning in this course, please meet with me (with or without an accommodation letter from the Disability Resource Center) to discuss reasonable options or adjustments. During our discussion, I may suggest the possibility/necessity of your contacting the DRC (240 Student Center; (734) 487-2470; swd_office@emich.edu to talk about academic accommodations. You are welcome to talk to me at any point in the semester about such issues, but it is best if we can talk at least one week prior to the need for any modifications.

Enhancing Student Skills

The University Writing Center (115 Halle Library; 487-0694) offers one-to-one writing consulting for undergraduate and graduate students. The UWC also has several satellite locations across campus (in Owen, Marshall, Pray-Harrold, and Mark Jefferson). For more information see the UWC web site: https://www.emich.edu/uwc/

The Academic Projects Center (116 Halle Library) also offers one-to-one writing consulting for students, in addition to consulting on research and technology-related issues. Additional information about the APC can be found at https://www.emich.edu/apc.

International Student Resource Center (200 Alexander Building) http://www.emich.edu/esl/isrc/ is a service of the World Languages Department for EMU students who need help with their non-native English language for academic assignments. Help is provided for reading and comprehension, listening and note-taking, improvement of grammatical accuracy, compositions, study skills, and conversation. Note, this is not the Office of International Students.

Tentative Topics to be Covered

I. Introduction to Modern Macroeconomics

1. Snowdon and Vane: Chapter 1 "Understanding Modern Macroeconomics" (Handout)
2. Mankiw, G. (2006), "The Macroeconomist as Scientist and Engineer", JEP.

II. Neoclassical Growth Model

1. Romer: Chapter 1, Sections 1.1-1.7
2. Mankiw, N. and Romer, D. and D. Weil (1992), "A Contribution to the Empirics of Economics Growth", QJE.

III. Endogenous Growth Model

1. Romer: Chapter 3.1-3.4
2. Jones, Charles I. (1995), "Time Series Tests of Endogenous Growth Models", QJE.

IV. Representative Agent Model and Fiscal Policy

1. Romer: Chapter 12.1-12.3 (11.1-11.3, 3rd ed.)
2. Shapiro, M. D. and Slemrod, J. (1995), "Consumer Response to the Timing of Income: Evidence from a Change in Tax Withholding", AER.

V. Flexible vs. Sticky-Price (Keynesian) Macroeconomics

1. Romer: Chapter 6.2 and 6.4 (5.1 and 5.4, 3rd ed.)
2. Expectations Formation (Handout)
3. Fuhrer, J. (1995), "The Phillips Curve is Alive and Well", New England Economics Review

VI. Inflation, Monetary Policy and Interest Rate Rules

1. Romer: Chapter 11.1, 11.3, 11.6 (10.1, 10.9, 10.6, 3rd ed.)
2. Clarida, R., Gali, J., and Gertler, M. (2000), "Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory", QJE.

VII. Real Business Cycles & DSGE Modeling

1. Romer: Chapter 5.1-5.2 (4.1-4.2 3rd ed.)
2. Gali: Ch. 1: Introduction in "Monetary Policy, Inflation, and the Business Cycle" (Handout)
3. Dynare User Guide - Chapter 3: Solving DSGE Models - Basics (Handout)

VIII. Consumption & Investment

1. Romer: Chapter 8.1-8.4 (7.1-7.4, 3rd ed.) (Consumption)
2. Campbell, J. and G. Mankiw (1989), "Consumption, Income and Interest Rates: Reinterpreting the Time Series Evidence", NBER Macroeconomics Annual
3. Romer: Chapter 9.1-9.3 (8.1-8.3, 3rd ed.) (investment)