OBJECTIVES

This course provides an intermediate level exposition of macroeconomic theory and its applications. Students are expected to be familiar with basic macroeconomic concepts from a principles level course. This course will review some of this background material briefly and then examine central macroeconomic concepts, theories and models of the determination of aggregate output and income, employment and unemployment, prices and inflation, growth, exchange rates and the balance of payments. Special attention will be given to the role of risk, uncertainty and expectations. Attention will be given to alternative macroeconomic theories so that students understand why economists differ in their opinions. The course will also apply the concepts, theories and models to understand real-world macroeconomic phenomena and policies.

PREREQUISITES

As already mentioned, students are expected to be familiar with basic economic concepts from a principles course in economics. The course will also use simple high-school level algebra and geometry (the purpose of which is to make the theory more accessible, not more complicated). Students are expected to be familiar with functions, their graphical representation, and the solution of simultaneous equations. Students are also required to be familiar with a spreadsheet program to manipulate economic data.

EVALUATION

Students will be evaluated on three exams (70 minutes each) and one cumulative final (2 hours), homework problems, class quizzes and several projects (sometimes involving groups).

1. The best two exams (out of three) will be counted for each student, each counting for 20% of the total grade (total of 40%).
2. The final will represent 30% of the grade.
3. There will be four group projects on topics which will be announced. These will typically involve the use of data and computer modeling and will count towards 10% of the grade.
4. In-class quizzes will be held almost daily using i-clickers. Bring your i-clicker to class every day. The lowest three quizzes for each student will be dropped. These will count towards 10% of the grade.
5. The **homework** will be the ones on each chapter found at the book’s website, at [http://wps.prenhall.com/bp_blanchard_macro_4/](http://wps.prenhall.com/bp_blanchard_macro_4/). Do each problem set you are required to do (see schedule) and once you submit it for grading, report the score to me by email at adutt@nd.edu. They must be sent in before class on the day on which they are due. Also, keep an excel sheet with your score on each problem set (in percentage terms) and send it to me when asked. Write your name (last name, then other names) in the first column, and scores for each problem set on the columns after that. There should be two rows in your table – one with homework chapter number, and one with your name and percentage scores. Homework will count towards 10% of the grade. The last homework assignment will carry more weight that the others. It will ask for your recommendation of what the Fed should do in terms of monetary policy in the (then) current situation. You need to justify your recommendation with a discussion of the main features of the US economy in three pages or less (double-spaced). You need to email this assignment to me by the last day of classes (midnight).

Please note that all homework assignments, projects and tests for this course must follow the University’s Academic Code of Honor (see [www.nd.edu/~hnrcode/docs/studentguide.pdf](http://www.nd.edu/~hnrcode/docs/studentguide.pdf)). You are, of course, required to work with members of your group on the project. But all other work must be done on your own. Home problems must be done without consulting books and notes. All class quizzes and exams are closed-book and closed-notes.

**WEBSITES**

Several class projects that you will be doing require the use of economic data. You need to find the data from various sources.

On the web, useful sites are as follows:

**US**
- Bureau of Economic Analysis: [www.bea.gov](http://www.bea.gov)

**World**
- World Bank’s World Development Indicators is available at the ND library site: [www.library.nd.edu/subjects/economics](http://www.library.nd.edu/subjects/economics)
  (you need to log in)

**Textbook Website**
- Blanchard’s Companion Website: [http://wps.prenhall.com/bp_blanchard_macro_4/](http://wps.prenhall.com/bp_blanchard_macro_4/)

**Miscellaneous information**
- Resources for Economists: [www.rfe.org](http://www.rfe.org)
PROJECTS

The projects will help you to develop simple macroeconomic models of the type we will study in class. They are designed to provide you with experience on three things:
1. Finding and collecting data. The websites mentioned above are useful sources of data. You should download data into a spreadsheet program like excel.
2. Using the data to figure out trends and estimate parameters. These can be done using spreadsheet programs like excel, but if you are familiar with other statistical software, such as e-views, you are welcome to use them.
3. Develop simple models and use them for analyzing policy and other changes. I would recommend using a program like Mathematica for doing this, because it involves plotting equations, finding solutions for models and examining the effects of parametric changes.

If you are not familiar with them, familiarize yourself with Excel (including how to run single variable and multivariate regressions) and Mathematica (to be able to graph equations and solve systems of equations). Let me know if you have any questions about this.

Each of you will participate in four group projects, where you will take responsibility for one clear task, so that your own work can be graded. The group as a whole will also be graded, but the weight on the individual part will be greater.

One project will be on national income account and the income expenditure model, another on the IS-LM model, yet another on the AD-AS model, and a final one on growth. I will describe the specific projects later. The composition of groups will change, so that you will work with several people in class on some project. Members of the group can divide the tasks amongst themselves. But each student must take primary responsibility for each one of the three things mentioned above. So, for instance, you can do primarily data collection for one project, work with data by running regressions in another, and build models in two others.

One project will be on national income account and the income expenditure model, another on the IS-LM model, yet another on the AD-AS model, and a final one on growth. I will describe the specific projects later.

TEXTBOOKS AND READINGS

Blanchard, Oliver, Macroeconomics, 4th edition, Prentice Hall, 2006. This is the main text, and is to be read intensively. I will also put up summaries of important points and some additional notes on the course folder on courseware. Required readings are starred. The other readings are optional and can be found online from the library. (Look under the journal names). Students are also encouraged to use the textbook web site.

We will try to follow the time-table given in the schedule, but may not be able to do so precisely.
### SYLLABUS

#### Part I. Introduction

January 16, 21, 23.

**I. 1. Macroeconomics**

a. Macroeconomics and aggregation  
b. Main issues in macroeconomics  
c. Alternative approaches to macroeconomics
d. The circular flow
e. Theories and models: variables, parameters, functions and equilibrium
f. A look at the world: US, Europe, Japan, post-socialist countries, less-developed countries

Readings:

* Blanchard, Chapter 1, Appendix 3

I. 2. **Macroeconomic Accounting**

a. GDP
b. Components of Income
c. Components of Aggregate Demand
d. Saving-investment identities
e. Nominal and Real GDP
f. Price level and Inflation
g. Unemployment

Readings:

* Blanchard, Chapter 2, Chapter 3, pg. 46-7, Appendix 1


**Part II. The short run: Goods and Asset Markets**

January 28, 30, February 4, 6

II. 1. **The Goods Market**

a. Demand for goods
b. Consumption and saving functions
c. Equilibrium output
d. Saving and investment
e. The multiplier
f. Policy

Readings:

* Blanchard, Chapter 3

II. 2. Asset Markets

a. Demand for money
b. Fixed money supply and the interest rate
c. Banks
d. The Central Bank
e. Two views of the money supply process

Readings:

* Blanchard, Chapter 4

* Notes on two views of the money supply process (on courseware).

II. 3. Goods and Asset Markets

a. IS curve
b. LM curve
c. Equilibrium output and interest
d. Fiscal policy
e. Monetary policy
f. The IS/LM model

Readings:

* Blanchard, chapter 5

Quiz 1: February 11

Part III. The medium run: Output, the price level and inflation

February 13, 18, 20, 25, 27, March 10

III.1 The labor market and the price level

a. Employment and unemployment
b. Wage determination
c. Price determination
d. The natural rate of unemployment
e. What’s so natural about the natural rate?

Readings:

* Blanchard, chapter 6
III.2 Aggregate Demand and Aggregate Supply

a. Aggregate supply
b. Aggregate demand
c. Equilibrium output and the price level
d. Adjustment to equilibrium
e. Monetary policy
f. Fiscal policy
g. Changes in supply

Readings:

* Blanchard, chapter 7


III.3 Macroeconomic Alternatives

a. Classical approach
b. Keynesian approach
c. Neoclassical synthesis
d. Monetarist approach
e. Rational expectations and new classical approach
f. New Keynesian approach
g. Post Keynesian approach

Readings:

* Blanchard, chapters 22, 27


**III.4 Inflation**

a. Inflation and unemployment  
b. The Phillips curve  
c. The natural rate again  
d. Okun’s law  
e. Money supply and inflation  
f. Conflict inflation  
g. Deflation

Readings:

* Blanchard, chapters 8, 9. Skim 23


*Quiz 2: March 12*

**Part IV. The long run: Growth**

March 17, 19, 26, 31

General reading:


**IV.1 Growth: facts**

a. The growth experience  
b. Convergence and divergence  
c. Growth accounting  
d. Determinants of growth

Readings:

* Blanchard, Chapter 10

**IV.2 Saving, investment and growth**

a. Harrod’s model
b. Solow’s neoclassical model  
c. Growth effects and level effects  
d. Human capital  

Readings:  

* Blanchard, Chapter 11  

**IV.3 Technological change and growth**  

a. Technological change in the neoclassical model  
b. Endogenous growth and new growth theory  
c. Externalities  
d. Determinants of technological change  
e. Capital accumulation versus technological change  

Readings:  

* Blanchard, Chapter 12  

**IV.4 Growth and Unemployment**  

a. Technological change, aggregate demand and aggregate supply  
b. Productivity and the natural rate  
c. Distributional effects of technological change  
d. Aggregate demand, unemployment and growth  

Readings:  

* Blanchard, Chapter 13  


**Part V. Uncertainty and Expectations**  

April 2, 7, 9  

**V.1 Uncertainty, risk and expectations**  

a. Risk and uncertainty  
b. Nominal and real interest rates  
c. Expected present discount values  
d. The IS-LM model again  
e. The Fisher hypothesis
Readings:

* Blanchard, Chapter 14

V.2 Financial markets, demand for goods and expectations

a. The bond market
b. The stock market
c. Consumption
d. Investment

Readings:

* Blanchard, Chapter 15, 16


V.3 Expectations, output and policy

Readings:

* Blanchard, Chapter 17

Quiz 3: April 14

Part VI. The Open Economy

April 16, 21, 23

VI.1 Openness and the economy

a. Export and Imports
b. Exchange Rates
c. Balance of payments
d. Capital flows

Readings:

* Blanchard, Chapter 18

VI.2 The goods market and the open economy

a. Imports, exports and output
b. Effects of changes in parameters
b. Depreciation
c. Saving, investment and the trade balance

Readings:

* Blanchard, Chapter 19

VI.3 Goods and asset markets and the economy

a. The IS curve again
b. The LM curve again
c. Equilibrium
d. Aggregate demand and Aggregate Supply again
e. Fixed exchange rates
f. Flexible exchange rates

Readings:

* Blanchard, Chapters 20, 21

Part VII. Policy and Conclusions

April 23, 28, 30

VII.1 For and against policy

a. Uncertainty
b. Expectations
c. Politics

Readings:

* Blanchard, Chapter 24

VII.2 Monetary Policy

a. Inflation
b. Design of monetary policy
c. The Fed

Readings:

* Blanchard, Chapter 25

**VII.3 Fiscal Policy**

a. Government deficits and debt  
b. Implications of government debt and deficits  
c. Fiscal policy in action  

**Readings:**  
* Blanchard, Chapter 26  

**VII.4 Conclusion**

**Readings:**  

*Final May 7, 8.00 AM – 10.00 AM*