Intermediate Macroeconomic Theory

ECON 268

Fall 2016 Syllabus

Instructor:	Jonathan Cogliano
Office hours:	Tuesdays 2:00-4:00pm Wednesdays 10:00-11:00am (or by appointment)
Office:	Althouse 112 ext. 1841
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Class Meetings:	Tuesdays & Thursdays 9:00-10:15am or 10:30-11:45am Althouse 207

Course Description:
This course introduces students to neoclassical theories of economic behavior in the aggregate. Formal models will be used as a framework for analyzing the determination of the level of national output and for explaining fluctuations in employment, the price level, interest rates, productivity, and the rate of economic growth. Additionally, the extent to which, and in what ways exactly, fiscal and monetary policies affect overall macroeconomic performance will be appraised.

Prerequisites: 111 and 112; MATH 170; MATH 121 (or equivalent ECON 214) or MATH 225 or INBM 220 (for INBM majors only).

Course Goals & Expectations:
In order to orient students to the ideas and tools used in macroeconomic theory we will be making use of formal mathematical models and their graphical representations. This means that we will be working with sets of equations that constitute a model and solving these sets of equations for the variables of interest to us. Once the models are "solved" we will then be examining mathematical properties of the solutions and using these properties to develop our macroeconomic intuition. Thus, you are expected to be comfortable solving systems of equations and working with the graphical machinery of models. You will already have seen some of this in your ECON 112 class and you are expected to have a full working knowledge of the concepts and terminology covered in ECON 112. However, for our purposes there will be a higher level of difficultly and rigor in the models and mathematical techniques used than those employed in ECON 112. As such, we will be making regular use of algebra and calculus in class, on assignments, and on exams. If you feel in any way unsure of your mastery over algebra, or of your recollection of calculus, you should be sure to brush up quickly.

The learning objectives for this course are as follows: (1) Substantive Knowledge: students should be conversant with basic macroeconomic concepts, theories, and chains of reasoning, including graphical

models and macroeconomic data. (2) Critical Analysis: students should be able to identify and explain the basic macroeconomic concepts, theories and chains of reasoning being used in assigned course materials. (3) Articulation and Application: students should be able to clearly articulate the basic macroeconomic concepts, theories and chains of reasoning and apply them to a range of economic phenomena.

Course Texts:

Blanchard, Olivier and David R. Johnson (2013). *Macroeconomics*, 6th edition. Upper Saddle River, NJ: Pearson.

The text is part of the required reading for the course and must be acquired by students. Copies of the book are available for purchase at the College bookstore. Any readings from texts not listed above will be provided through Moodle.

Grading:

Assignment	Weight	Date (tentative)
Participation	15%	
Online Assignments	10%	
Written Homework	15%	
Exam #1	20%	Sept. 29
Exam #2	20%	Nov. 8
Final Exam	20%	Dec. 12 or 14, 2:00pm

Grade Scale:
The grading scale for final grades for the semester is as follows:

Grade	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	F
Score	≥ 93	90-92	87-89	83-86	80-82	77-79	73-76	70-72	67-69	63-66	60-62	≤ 59

Participation & Attendance
The class participation portion of the overall grade for the semester consists of participation in class discussions. Students should prepare for each class by doing the readings and thinking about the material in advance. Preparation requires that you have read and thought seriously about the assigned materials for each class. Participation in class means both sharing your ideas (by talking) and respecting and engaging the ideas of your classmates by actively listening and responding respectfully. Students' meaningful participation in class includes the quality and quantity of comments and questions, your attentiveness, and the seriousness with which you engage the course materials.

Attendance will be taken every class. There are no points given for simply showing up to class. If you are more than 10 minutes late to class you will be considered absent. Each unexcused absence in excess of two classes will result in a 2 point reduction in your final grade for the semester. For example, if you are absent 4 times (unexcused), then you will lose 4 points off your final grade—more than a third of a letter grade.

Electronic Devices:
The use of cellphones or smartphones of any kind during class is *not* permitted. The use of tablet computers and laptops/notebooks for the purpose of taking notes is allowed. However, this is not license to use these devices for non-course related purposes during class (e.g. Facebook, personal e-mail, online shopping). While the use of electronic devices for taking notes is allowed, you should be aware of recent research which suggests that taking notes by hand is more effective for learning and knowledge retention ("The Pen Is Mightier Than the Keyboard: Advantages of Longhand Over Laptop Note Taking" by Mueller and Oppenheimer in *Psychological Science 25*(6), summarized in *Scientific American*, June 3, 2014). If the use of approved devices becomes a distraction for the class at any point, you will be asked to put them away.

Online Assignments
Students are required to complete online assignments as they are assigned. These assignments will be provided through MyEconLab: www.myeconlab.com. You will have unlimited attempts at correctly completing these assignments, but they must be completed by their due dates.

Written Homework
Students will also be required to submit written homework assignments periodically throughout the semester. These homework assignments are designed for students to work through and extend the material covered in lectures in order to deepen understanding and prepare for exams. At least one week's notice will be given for each written homework assignment.

Exams
The exams are intended to be straightforward and test students on their understanding of the key concepts discussed in class, the required readings, and homework assignments. The exams will not be overly tricky or complicated, but will require a clear understanding of the general concepts behind the course topics.

Final Exam
The final exam, like the other exams, is designed to test students on their knowledge of material covered in class, the readings, and homeworks. However, the final exam will be designed to be more comprehensive of the material covered throughout the semester than the earlier exams.

Course Policies:

Attendance Policy

See course grading information above.

Electronic Devices

See course grading information above.

Late Assignments

All assignments must be turned in on time. Late assignments will not be accepted and will result in a zero unless inability to complete and submit the assignment is caused by a verified medical/family emergency.

Academic Honesty

Dickinson College's policies on academic integrity and honesty will be strictly enforced. Policies on cheating and plagiarism can be found in The 2015-16 Community Standards.

Accommodating Students with Disabilities

Dickinson College makes reasonable academic accommodations for students with documented disabilities. Students requesting accommodations must make their request and provide appropriate documentation to the Office of Disability Services (ODS) in Dana Hall, Suite 106. Because classes change every semester, eligible students must obtain a new accommodation letter from Director Marni Jones every semester and review this letter with their professors so the accommodations can be implemented.

The Director of ODS is available by appointment to answer questions and discuss any implementation issues you may have.

ODS proctoring is managed by Susan Frommer at (717-254-8107 or proctoring@dickinson.edu). Address general inquiries to 717-245-1734 or e-mail disabilityservices@dickinson.edu.

For more information, go to www.dickinson.edu/ODS

Key Dates:
Below are some key dates for events related to class. Some of these events are a required part of the class and attendance is mandatory. Other events are optional but may be of interest; all optional events are denoted with an asterisk (*).

Event	Date & Time	Location
Department of Economics Seminar Series, with James Saunoris	TBD	TBD

Course Outline/Readings (tentative):

Below is an outline of the course readings and a tentative schedule of the class. We will progress through as much of the material as possible. If you want to know where we currently are in the syllabus you should check Moodle.

Readings should always be completed before class. Any readings listed with an asterisk (*) before them are considered optional readings and are meant to serve as a guide to further reading should a topic be of particular interest.

I. Course Introduction

(a) Where are we now? *Aug. 30*

Blanchard & Johnson: Chs. 1, 2.

Snowdon, B., H. Vane, and P. Wynarczyk (1994). *A Modern Guide to Macroeconomics*. Cheltenham: Edward Elgar: Ch. 1.

Jahan, S., A. S. Mahmud, and C. Papageorgiou (2014). "What is Keynesian Economics?" *IMF: Finance and Development 51*(3), September 2014. Available online.

II. The Short-Run Macro Framework

(a) The Goods Market *Sept. 1, 6*

Blanchard & Johnson: Ch. 3.

*Blinder, A. S. (1980). "Inventories in the Keynesian Macro Model." *Kyklos 33*(4), pp. 585-614.

(b) The Financial Market *Sept. 8, 13*

Blanchard & Johnson: Ch. 4.

*Taylor, L. (2010). *Maynard's Revenge*. Cambridge, MA: Harvard University Press: Ch. 7.

(c) The IS-LM Model *Sept. 15-Oct. 11*

Blachard & Johnson: Ch. 5.

Krugman, P. (2011). "IS-LMentary". *The New York Times*. October 9: Available online

Krugman, P. (2013). "Monetary Rage". *The New York Times*. January 5: Available online

Romer, D. (2000). "Keynesian Macroeconomics without the LM curve." *Journal of Economic Perspectives 14*(2), pp. 149-169.

*Taylor, L. (2013). "A Note on Paul Krugman's 'Liquidity Trap'". SCEPA Policy Note, The New School for Social Research: Available online

*Hicks, J. R. (1937). "Mr. Keynes and the 'Classics': A Suggested Interpretation". *Econometrica 5*(2), pp. 147-159.

*Keynes, J. M. (1937). "Alternative Theories of the Rate of Interest." *The Economic Journal 47*(186), pp. 241-252.

*Boianovsky, M. (2004). "The IS-LM Model and the Liquidity Trap Concept: From Hicks to Krugman". *History of Political Economy 36*(Suppl. 1), pp. 92-126.

*Snowdon, B., H. Vane, and P. Wynarczyk (1994). *A Modern Guide to Macroeconomics.* Cheltenham: Edward Elgar: Ch. 3.

*Setterfield, M. (2009). "Macroeconomics without the LM curve: an alternative view." *Cambridge Journal of Economics 33*, pp. 273-293.

III. The Medium Run

(a) The Labor Market — *Oct. 13*

Blanchard & Johnson: Ch. 6.

*Minsky, H. P. (2008). *John Maynard Keynes.* New York, NY: McGraw-Hill-Irwin: Ch. 2

*Yellen, J. L. (1984). "Efficiency Wage Models of Unemployment." *American Economic Review 74*(2), pp. 200-205.

*Shapiro, C. and J. E. Stiglitz (1984). "Equilibrium Unemployment as a Worker Discipline Device." *American Economic Review 74*(3), pp. 433-444.

*Bowles, S. and R. Boyer (1988). "Labor Discipline and Aggregate Demand: A Macroeconomic Model." *American Economic Review 78*(2), pp. 395-400.

*Stiglitz, J. E. (1984). "Theories of Wage Rigidity." NBER Working Paper Series, No. 1442.

(b) The AS-AD Model — *Oct. 20, 25*

Blanchard & Johnson: Ch. 7

*Blanchard, O. (1990). "Why Does Money Affect Output? A Survey". *Handbook of Monetary Economics, Volume 2.* Elsevier.

*Lucas, R. E. (1972). "Expectations and the Neutrality of Money." *Journal of Economic Theory 4*, pp. 103-124.

*Ball, L. and D. Romer (1990). "Real Rigidities and the Non-Neutrality of Money." *Review of Economic Studies 57*(2), pp. 183-203.

*Minsky, H. P. (1993). "On the Non-Neutrality of Money." *Federal Reserve Bank of New York Quarterly Review 18*(1), pp. 77-82.

(c) The Phillips Curve and Inflation *Oct. 27, Nov. 1*

Blanchard & Johnson: Ch. 8

United States Economy: Where to From Here? Video of conference panel at 2016 ASSA meeting, San Francisco, CA.

Krugman, P. (2013). "Not Enough Inflation." *The New York Times*, May 2, 2013. Available online

*Lucas, R. E. (1976). "Econometric Policy Evaluation: A Critique." In K. Brunner and A. Meltzer (Eds.), *The Phillips Curve and Labor Markets*. Carnegie-Rochester Conference Series on Public Policy 1. New York, NY: Elsevier.

*Akerloff, G. A. , W. T. Dickens, and G. L. Perry (1996). "The Macroeconomics of Low Inflation." *Brookings Papers on Economic Activity*, 1996-1 (Spring), pp. 1-76.

*Gordon, R. J. (2013). "The Phillips Curve is Alive and Well: Inflation and the NAIRU During the Slow Recovery." NBER Working Paper Series, No. 19390.

*Blanchard, O., E. Cerutti, and L. Summers (2015). "Inflation and Activity - Two Explorations and their Monetary Policy Implications." IMF Working Paper Series, No. 15/230.

*Blanchard, O. (2016). "U.S. Macro Policy in the Future." Presentation at 2016 ASSA Conference, San Francisco, CA.

*Yellen, J. L. (2015). "Inflation Dynamics and Monetary Policy." Philip Gamble Memorial Lecture, University of Massachusetts, Amherst. September 24, 2015.

(d) Crisis! *Nov. 10, 15*

Blanchard & Johnson: Ch. 9

Blinder, A. S. (2010). "Quantitative Easing: Entrance and Exit Strategies". Federal Reserve Bank of St. Louis Review, November/December.

Palley, T. I. (2015). "Monetary Policy at the Zero Lower Bound and After: a Reassessment of Quantitative Easing and Critique of the Federal Reserve's Proposed Exit Strategy." *Metroeconomica 66*(1), pp. 1-27.

*Krugman, P. R. (1998). "It's Baaack: Japan's Slump and the Return of the Liquidity Trap." *Brookings Papers on Economic Activity 1998*(2), pp. 137-205. With commentary from Kathryn M. Dominquez and Kenneth Rogoff.

*Eggertsson, G. B. and P. Krugman (2012). "Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo Approach." *Quarterly Journal of Economics 127*(3), pp. 1469-1513.

*Blanchard, O., G. Dell'Ariccia, and P. Mauro (2010). "Rethinking Macroeconomic Policy." *Journal of Money, Credit and Banking 42*(Suppl. 1), pp. 199-215.

*Minsky, H. P. (2008). *John Maynard Keynes*. New York, NY: McGraw-Hill-Irwin: Chs. 6, 7.

*Taylor, L. (2014). "The Triumph of the Rentier? Thomas Piketty vs. Luigi Pasinetti and John Maynard Keynes." Schwartz Center for Economic Policy Analysis, Eco-

nomics Department, New School for Social Research, Working Paper.

*Foley, D. K. (2010). "Lineages of Crisis Economics from the 1930s: Keynes, Hayek, and Schumpeter." *Eastern Economic Journal 36*, pp. 413-422.

IV. Policy Revisited

(a) Fiscal & Monetary Policy in Summary — *Nov. 17*

Blanchard & Johnson: Chs. 23, 24

Krugman, P. (2012). "The Austerity Agenda". *The New York Times*. May 31: Available online

Reinhart, C. M. and K. S. Rogoff (2010). "Growth in a Time of Debt". *American Economic Review 100*(2), pp. 573-578.

Herndon, T., M. Ash, and R. Pollin (2013). "Does high public debt consistently stifle economic growth? A critique of Reinhart and Rogoff". *Cambridge Journal of Economics 38*(2), pp. 257-279.

V. Long-Run Growth

(a) Capital Accumulation and Technical Progress — *Nov. 29*

Blanchard & Johnson: Chs. 10 (sections 10-1, 10-2, 10-4), 11 (including the Appendix), 12 (section 12-1 only).

Solow, R. M. (1956). "A Contribution to the Theory of Economic Growth". *Quarterly Journal of Economics 70*(1), pp. 65-94.

*Mankiw, N. G., D. Romer, and D. N. Weil (1992). "A Contribution to the Empirics of Economic Growth." *Quarterly Journal of Economics 107*(2), pp. 407-437.

*Uzawa, H. (1965). "Optimum Technical Change in An Aggregative Model of Economic Growth." *International Economic Review 6*(1), pp. 18-31.

*Taylor, L., D. K. Foley, J. F. Cogliano, and R. Kumar (2013). "Greenhouse Gas Accumulation and Demand-driven Economic Growth – A Simulation Model". Working Paper.

*Taylor, L., D. K. Foley, J. F. Cogliano, and A. Rezai (2013). "Demand-Driven Growth and Climate Change: Initial Simulations". Mimeo.

VI. Recent Currents in Macroeconomics

(a) Foundations of DSGE Modeling & the Modern Mainstream — *Dec. 1*

Blanchard & Johnson: Ch. 25

Romer, D. (1993). "The New Keynesian Synthesis." *Journal of Economic Perspectives 7*(1), pp. 5-22.

Lucas, R. E. (2009). "In defence of the dismal science". *The Economist*, vol. 392, no. 8643, p. 67.

References for lecture:

Chiang, A. (1992). *Elements of Dynamic Optimization.* Long Grove, IL: Waveland Press, Inc.: Ch. 9, sec. 3

Barro, R. J. and X. Sala-i-Martin (2004). *Economic Growth*, 2nd edition. Cambridge, MA: MIT Press: Appendix A.3

*Snowdon, B., H. Vane, and P. Wynarczyk (1994). *A Modern Guide to Macroeconomics.* Cheltenham: Edward Elgar: Chs. 8, 9.

*Romer, D. (2012). *Advanced Macroeconomics*, 4th edition. New York, NY: McGraw Hill-Irwin: Chs. 2, 5, 7

*Ramsey, F. P. (1928). "A Mathematical Theory of Saving." *Economic Journal 38*(152), pp. 543-559.

*Plosser, C. I. (1989). "Understanding Real Business Cycles." *Journal of Economic Perspectives 3*(3), pp. 51-77.

*Mankiw, N. G. (1989). "Real Business Cycles: A New Keynesian Perspective." *Journal of Economic Perspectives 3*(3), pp. 79-90.

*Kydland, F. E. and E. C. Prescott (1982). "Time to Build and Aggregate Fluctuations." *Econometrica 50*(6), pp. 1345-1370.

(b) Some Critiques & Alternatives *Dec. 6*

Hendry, D. F. and G. E. Mizon (2014). "Why DSGEs crash during crises". *VOX, Centre for Economic Policy Research*, June 18, 2014. www.voxeu.org

LeBaron, B. and L. Tesfatsion (2008). "Modeling Macroeconomies as Open-Ended Dynamic Systems of Interacting Agents." *American Economic Review 98*(2), pp. 246-250.

Farmer, J. D. and D. Foley (2009). "The economy needs agent-based modelling." *Nature 460*(6), pp. 685-686.

*Dosi, G., G. Fagiolo, and A. Roventini (2010). "Schumpeter meeting Keynes: A policy-friendly model of endogenous growth and business cycles." *Journal of Economic Dynamics and Control 34*, pp. 1748-1767.

*Foley, D. K. (1992). "A Contribution to the Theory of Business Cycles." *Quarterly Journal of Economics 107*(3). pp. 1071-1088.

*Colander, D., P. Howitt, A. Kirman, A. Leijonhufvud, and P. Mehrling (2008). "Beyond DSGE Models: Toward an Empirically Based Macroeconomics." *American Economic Review 98*(2), pp. 236-240.

VII. How It All Hangs Together: the Stories Models Tell and their Policy Conclusions (time permitting)

(a) The Model's "Closure" Dictates its Story and Implications

Taylor, L. and F. Lysy (1979). "Vanishing Income Redistributions: Keynesian Clues about Model Surprises in the Short Run". *Journal of Development Economics 6*(1),

pp. 11-29.

Taylor, L. (1991). *Income Distribution, Inflation, and Growth: Lectures on Structuralist Macroeconomic Theory.* Cambridge, MA: MIT Press: Chs. 1, 2.

*Taylor, L. (2004). *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream.* Cambridge, MA: Harvard University Press: Ch. 5.

*Taylor, L. (2012). "Growth, Cycles, Asset Prices and Finance." *Metroeconomica 63*(1), pp. 40-63.

*Bhaduri, A. (2008). "On the dynamics of profit-led and wage-led growth." *Cambridge Journal of Economics 32*, pp. 147-160.

*Taylor, L. and S. A. O'Connell (1985). "A Minsky Crisis." *Quarterly Journal of Economics 100*, pp. 871-885.