1-1-2009

(2) Sample Syllabus: Econ 3004

Farrokh Nourzad

ECON 3004 INTERMEDIATE MACROECONOMIC ANALYSIS Fall 2009

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TEXTBOOK AND OTHER MATERIAL

Required:
Robert J. Gordon, *Macroeconomics*, 11th edition, Addison-Wesley, 2009.

Recommended:
Deirdre N. McCloskey, *Economical Writing*, 2nd edition, Waveland Press, 2000

D2L COURSE SITE

I use the web-based course management software, **D2L** to disseminate information during the course of the semester. The gateway is at **http://d2l.mu.edu/ .** Feel free to ask me for help regarding the use of D2L or for that matter regarding any other aspect of this course.

COURSE DESCRIPTION

This course is an extension of ECON 2004 (previously 044), Principles of Macroeconomics. It is concerned with the behavior of such key economic aggregates as the unemployment rate, the inflation rate, productivity growth, interest rates, government budget deficit/surplus, and foreign trade deficit/surplus, to name but a few. There are many other variables that are related to one or more of the above key macroeconomic variables such as income, wealth, money, consumption, investment, exchange rates, and wages. These, too, are of concern to macroeconomics and thus to this course. We want to learn how these macroeconomic variables are determined; what are the causes and consequences of changes in them; how they interact with one another; and how they respond to fiscal and monetary policy actions. The topics that we will study include the recent slowdown in productivity growth; fiscal and monetary policy in small and large open economies under fixed and flexible exchange rate regimes; causes and consequences of inflation and unemployment; and the causes, types, and consequences of supply shocks and the policy dilemma they represent. The course concludes with a comparison of two competing modern approaches to business cycle analysis, the new classical and new Keynesian paradigms.

LEARNING OBJECTIVES

As a member of business community, a journalist, an educator, a government official, or simply as a private citizen, you make decisions that are influenced by current and future states of the economy. An objective of this course is to help you learn to answer such questions as: Why are output, unemployment, interest rates, inflation, exchange rates, etc. at their present levels? What are the likely paths of these variables in the near future? What are the causes and consequences of recessions, inflation, stagflation, and high interest rates? What, if anything, can the government do about these problems? What are the side effects of government actions? What are the consequences of large budget deficits and national debt? What are the pros and cons of free trade versus trade restrictions ("protectionism") such as tariffs and quotas? In achieving this goal, we will emphasize critical thinking, conceptualization, and problem solving, and de-emphasize memorization and mechanical thinking. Another related goal of the course is to help you learn to communicate the knowledge you acquire in this course to others (please see ***Projects*** below.)

APPROACH

The approach of the course is analytical. We study the interaction between real and nominal variables in theoretical frameworks (models) which we construct under alternative assumptions about individuals' behavior and the institutional setting in which they interact. We base our theoretical discussion on the modern macroeconomic approach to business cycle analysis. For this purpose, we follow the text by Gordon and develop a series of models of increasing degree of complexity. As analytical facility is developed, we apply our models to some of the recent macroeconomic problems that have confronted the economy.

COVERAGE

The course coverage is as follows. First, we briefly review some of the basic concepts you studied in your principles of macroeconomics course. These are covered in Chapters 1-2 of Gordon. Next, we develop a model of a closed economy and use it for policy analysis. This is based on the material in Chapters 3-5. Following this part, we modify our analytical model by incorporating international trade and finance. This is covered in Chapter 6. We then proceed to develop an analytical framework that helps us to see how output, price, employment, and wages are determined in the short and long run and how they interact with one anther. We use this framework to study traditional theories of the business cycle. These are found in Chapter 7 of the text by Gordon. Next, we use our general model to analyze the dynamics of inflation and its interaction with unemployment, which is the subject matter of Chapters 8. Once we complete our analysis of short-run fluctuations, we move on to the study of productivity and economic growth in the long run, a topic that is covered in Chapters 10-11. After this, we study two competing modern theories of the business cycles covered in Chapter 17.

LECTURES

I deliver my lectures using PowerPoint slide show, overhead transparency, and the whiteboard. An abbreviated version of my PowerPoint lecture notes is accessible through **D2L** by clicking the Lectures link. This provides you with the major points of each lecture, allowing you to take down additional information you deem relevant.

GRADING

Your course grade will be based on your total score in four homework assignments each counting as 5% of the overall course grade, a midterm exam counting as 25% of the grade, a non-cumulative final constituting another 25% of the course grade, and three projects collectively making up the remaining 30% of the overall grade.

- **Homework Assignments**
  In most cases these consist of multiple-choice questions based on lecture notes, the text by Gordon, and class discussions. Some assignments may take the form of review/critique of articles dealing with current issues.

- **Exams**
  Each exam consists of are a combination of multiple-choice questions, short-answer questions, and quantitative and/or analytical problems similar to the ***Questions*** and ***Problems*** that follow each chapter in the text by Gordon. Once again, in addition to the lecture notes

and the text by Gordon, exams may also cover assigned articles and class discussions. I invite you to come see me if you need help with your preparation for the quizzes or any other aspect of the course.

- **Projects**
  - ***Project 1*** is about data analysis. It requires you to use macroeconomic data available on the Internet to examine a prediction from a short-run model developed in class. First, you present the time path of the variables involved in the theoretical prediction individually in whatever form you wish (e.g., as line graphs, tables, etc.) Next, you provide a brief report describing the evolution of each of these variables. Finally, you explain whether or not these variables appear to be related to one another in a manner that is consistent with the prediction of the model. Here, you may choose to base your conclusion on scatter diagrams, correlation analysis, or regression analysis. The choice of a technique is entirely yours. Your grade for this project will be based on the soundness of your analysis. You should report your analysis in a paper of no more than 5-7 pages (including graphs and/or tables), typed, double-spaced, and in font size 12.

  - ***Project 2*** is about assessing the state of the economy. Your task is to use relevant leading, coincident, and lagging economic indicator to forecast the near future path of such key macro variables and inflation and unemployment. You should report your analysis in a paper of no more than 5-7 pages (including graphs and/or tables), typed, double-spaced, and in font size 12.

  - ***Project 3*** is about long-run growth. It takes the form of a short ***review*** of an article dealing with ***economic growth and development***. Your review may be complementary or critical but it has to be based on sound analytical reasoning. You report your analysis in a short report (about 3-5 pages, typed, double-spaced, in font size 12). You have two options for choosing an article to review. One is to pick one of the articles that are posted on D2L. Another option is to choose your own article from such sources as *Business Week; Challenge; the Economist; Fortune; publications by various Federal Reserve Banks, or by such international organizations as the IMF, the UN, the World Bank, and other sources*. Choosing the second option offers you extra credits equal to 10% of the project grade. Be sure to attach a copy of the article you are reviewing to your report if you choose the second option for choosing an article. Your grade for this project will be based on your choice of the article; your understanding of the content of the article/column; the soundness of your analysis; and the clarity of your presentation. You should report your analysis in a paper of no more than 3-5 pages (including graphs and/or tables), typed, double-spaced, and in font size 12. Do feel free to consult with me regarding your choice of an article.

- **General Guidelines Regarding the Projects**
  - ***Don't forget the theory:*** Economics is a theoretical as well as empirical science. The arguments in your projects should be grounded in theory and backed by evidence.
  - ***Avoid unsubstantiated statements:*** For example, a statement such as, "outsourcing has led to the demise of the labor force in the United States" must be substantiated by referring to facts (data). You may draw upon the findings of others, or you may support your argument with empirical evidence.

- ***Avoid lifting people's words without giving them credit:*** Copying verbatim part or all of someone's published work is ***plagiarizing*** and can have serious consequences. Inclusion of direct quotes in your project(s) is an option, not a requirement. Excessive use of quotations can often make your report choppy. Instead, consider paraphrasing the work of others. Note, however, that this does not mean changing only one or two words! You should put the idea of the author in your *own* words, followed by citing of the author(s). Direct quotations should correspond *exactly* with the originals in wording, spelling, capitalization, and punctuation. Short quotations should be incorporated into the text of the paper and enclosed in quotation marks. However, a quotation of two or more sentences that runs to three or more typewritten lines should be set off from the text, single spaced and indented in its entirety five spaces from the left and right margins. Such a quotation does not need to be enclosed in quotation marks. At the end of the quotation, you should include in parentheses the name of the author or authors, the date, and the page numbers.
- ***Avoid mixing tenses:*** When possible, write in present tense.
- ***Avoid casual language in your writing:*** This is a mistake that students frequently make. This includes overusing contractions. A statement such as "It's as if the proponents of the gold standard don't care about the effects of such a policy on the international transmission of recessions" is too informal. Please restate it more formally and avoid contractions.
- ***Avoid incomplete sentences, run-on sentences, and awkward sentence structure:*** This can often be avoided by rereading your own writing a couple of times, or having someone else read your paper.
- ***Avoid having a heading or a sub-heading as the last line of the page:*** It looks much better if you simply space a few lines and have the heading on the top of the next page.
- ***Include a cover page and please do not use binders or clips:*** Your reports should have be stapled and submitted in a flexible manila folder

Letter grades will be assigned according to the following schedule,

91 - 100	A
87 - 90.99	AB
77 - 86.99	B
74 - 76.99	BC
64 - 73.99	C
61 - 63.99	CD
51 - 60.99	D
Less than 51	F

Important Dates

Homework 1	Tuesday 22 September
First Project	Thursday 8 October
Homework 2	Tuesday 13 October
Midterm	Thursday 15 October
Second Project	Tuesday 3 November
Homework 3	Tuesday 7 November
Third Project	Thursday 3 December
Homework 4	Thursday 10 December
Final	Monday 14 December 1:00 – 3:00 P.m.

EXPECTATIONS, TASKS, AND CONDUCT

- Keep up with current economic events and issues by reading the *Wall Street Journal*, *Business Week*, the *Economist* or other sources of your choice.

- Read all readings pertaining to each topic (topics and reading assignments are outlined below) at least twice, once before and another time after the class meeting in which the topic is presented.

- You are expected to attend and be on time for all class meetings throughout the semester. The attendance policy of the College of Business will be adhered to strictly. According to this policy, if a student's cumulative absences from class in hours equal to two weeks of class periods (4 class meetings in the present case), he/she may be dropped from class ***without warning*** earning a grade of WA. Please inform me in advance if you have to miss class for a legitimate reason that you can document such as a medical condition.

- Participate in class discussion, feel free to ask questions (there is no such a thing as a "stupid question") and do take notes. Please respect the right of your fellow classmates to a quiet and orderly class atmosphere.

- Academic dishonesty will *absolutely* not be tolerated and will be dealt with to the fullest extent of the governing regulations as described in the *Undergraduate Bulletin*.

- You may appeal your course grade if you believe it is in error. Grade appeal process is found in the *Undergraduate Bulletin*.

STUDENTS WITH DISABILITY

I encourage you to come see me at the beginning of the semester if you have any disability that might affect your learning and performance in this class.

READING ASSIGNMENTS

I. REVIEW OF INTRODUCTORY CONCEPTS

Week 1 A. Preliminaries (Chapter 1)

1. Scope of Macroeconomics
2. Macroeconomics vs. Microeconomics
3. Economic Model Building and Usefulness of Theory
4. Business Cycles: Characteristics and Stylized Facts
5. Natural Real GDP and Natural Unemployment Rate
7. Short Run vs. Long Run
8. The Issues
9. Stabilization Policy
10. Globalization of the Economy

Week 2 B. Macroeconomic Measurement (Chapter 2)

1. Introduction
2. Alternative Approaches to Measuring GDP
3. Injections and Leakages
4. The GDP Identity and Government Budget

II. MACROECONOMICS IN THE SHORT RUN: ECONOMIC FLUCTUATIONS

Week 3 **A. Demand-side Equilibrium Analysis**

1. Product Market Equilibrium I (Chapter 3)

a. Introduction
b. Assumptions
c. Actual and Planned Expenditures
d. Behavioral Relations
e. Determination of Equilibrium Income
f. From Equilibrium to Disequilibrium to a New Equilibrium
g. The Multiplier Effect
h. Fiscal Policy
i. Net Exports and the Multiplier
j. Planned Spending and the Rate of Interest
k. Product Market Equilibrium Revisited: The IS Curve

Week 4 **2. Money Market Equilibrium (Chapter 4)**

a. Assumptions
b. Behavioral Relations: The Supply of & the Demand for Money
c. Money Market Equilibrium: The LM Curve

3. General Equilibrium in Product & Money Markets (Chapter 4)

a. The Basic IS-LM Model
b. Monetary Policy in the Basic IS-LM Model
c. Fiscal Policy in the Basic IS-LM Model-- The Crowding-out Effect

Week 5 **3. Strong & Weak Effects of Monetary & Fiscal Policy (Chapter 4)**

a. Monetary Policy
   * Interest Insensitive Money Demand
   * Liquidity Trap
   * Interest Insensitive Spending
b. Fiscal Policy
   * Interest Insensitive Money Demand
   * Interest Insensitive Spending
c. The Interaction Between Fiscal & Monetary Policies

Week 6 **4. The Government Budget and its Effects (Chapter 5)**

a. Crowding out of Net Exports
b. Government's Budget Position and National Saving
   * Crowding out in a closed economy
   * Fiscal policy in a Small Open Economy
   * Fiscal policy in a Large Open Economy

Week 7 **5. The Open-Economy IS-LM Model (Chapter 6)**

a. Introduction
b. Foreign Trade and Balance of Payments
c. Exchange Rates
d. The Foreign Exchange Market
e. Nominal and Real Exchange Rates
f. Alternative Exchange Rate Systems
g. Determinants of Net Exports
h. Real Exchange Rates and Interest Rates

i. The IS-LM Model for a Small Open Economy
j. The IS-LM Model for a Large Open-Economy
k. Policy Conclusions

Week 8 B. DEMAND- AND SUPPLY-SIDE EQUILIBRIUM ANALYSIS

1. The Basic Static Aggregate Demand-Supply Model (Chapter 7)

a. Introduction
b. The Aggregate Demand Curve when Prices are Flexible
c. The Aggregate Supply Curve
   * Alternative Shapes of the Aggregate Supply Curve
   * Aggregate Supply when Money Wages are Fixed
   * Determination of the Wage Rate
d. The Short- and Long-run Effects of Fiscal & Monetary Policy in the Basic Aggregate Demand-Aggregate Supply Model

Week 9 e. Using the Basic Aggregate Demand-Aggregate Supply Model to Compare Traditional Macroeconomic Theories
   * The Self-correcting Model based on the Quantity Theory of Money
   * The Original Keynesian Model

C. INFLATION AND UNEMPLOYMENT (Chapter 8)

1. Introduction
2. Types of Inflation
   a. Demand Inflation
      * The Basic Short-run Phillips Curve
      * The Role of Expectations and the Long-run Phillips Curve

Week 10
      * Nominal GDP Growth and Inflation
      * Effects of an Acceleration in Nominal GDP Growth
      * Expectations and the Inflation Cycle
      * Recession as a Cure for Inflation

Week 11 C. INFLATION AND UNEMPLOYMENT-- CONTINUED

b. Supply Inflation
   * The Role of Supply Shocks
   * The Response of Prices and Output to Supply Shocks
   * The Response of Inflation and Output Ratio to Supply Shocks
c. Okun's Law

III. MACROECONOMICS IN THE LONG RUN: PRODUCTIVITY & GROWTH

Week 12 A. ALTERNATIVE THEORIES OF ECONOMIC GROWTH (Chapter 10)

1. Growth: Its Importance and Consequences
2. The Production Function and Growth
3. Early Models of Economic Growth
   a. The Harrod-Domar Model
   b. Solow's Model
      * The Role of Technology
      * Limitations of Solow's Model
4. The New Endogenous Growth Theory
5. Summary

Week 13 B. RECENT SLOWDOWN IN PRODUCTIVITY & REAL WAGE (Chapter 11)

1. Introduction
2. Productivity and Real Wages
3. Adverse Productivity Shocks

C. POLICIES TO PROMOTE PRODUCTIVITY & GROWTH (Chapter 11)

1. Fiscal Policy and Growth
2. Other Policy Options

V. RECENT THEORIES OF BUSINESS CYCLES (Chapter 17)

Weeks 14 **A. NEW CLASICAL MARKET CLEARING MODELS**

1. Friedman's Fooling Model
2. Lucas' Model and the Policy Ineffectiveness Proposition
3. The Kydland-Prescott Real Business Cycle Model
4. An Assessment of New Classical Macroeconomics

B. NEW KEYNESIAN NON-MARKET CLEARING MODEL (Chapter 17)

1. Essential Features
2. Nominal Rigidities
3. Coordination Failure and Indexation
4. Long-term Labor Contracts
5. Real Rigidities
6. The New Keynesian Model
7. An Assessment of the New Keynesian Model