2012

ECON 306-01 Macroeconomic Analysis

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ECON306, Macroeconomic Analysis
Spring, 2012
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Office Hours: MWF (9:30-11:30) and by appointment

A. Course materials:

*Macroeconomics* (twelfth edition, 2012), Robert Gordon; required
On electronic reserve (password: amacro)

A. Articles
1. "A Quick Refresher Course in Macroeconomics", *Journal of Economic Literature* (December, 1990), N. Gregory Mankiw
3. "New and Old Keynesians", *Journal of Economic Perspectives* (Winter, 1993), Bruce Greenwald and Joseph Stiglitz,

B. Practice exams

C. Links to the (1) Federal Reserve Board of Governors, (2) the European Central Bank, (3) the St. Louis Federal Reserve Bank’s “fred” data page, (4) macro blogs (Krugman, Atlanta FRB)

B. Course Description and Objectives:

This course is designed to give you an advanced understanding of macroeconomic theory, one which builds on the material in the introductory macroeconomics course and focuses on the causes and cures for business cycles. The perspective taken in this course is one of evolutionary change in the theory of business cycles from the early classical approach, on through the original Keynesian analysis, and ultimately to the debate taking place between the two "new" schools of thought, i.e. new classical and new Keynesian theory. This course thoroughly integrates the real and monetary sectors through IS-LM analysis, and examines the macro economy and the policy issues in an international context. By the end of this course, you will be prepared for graduate work in economics at the doctoral level even though many of you will pursue other endeavors after graduation. Regardless of what career you ultimately choose, you will be able to read and discuss economic analysis at a level consistent with that done by a professional economist.

C. Course Work and Grade Determination:

You will be required to write short (3-5 pages each) article summaries of the four articles on electronic reserve (see the list under “A”). These will be due on the final day of classes before final exam week. If they are not turned in by that date, there will be a one grade penalty for each weekday they are late. These articles will give you additional insight into the modern (post-Keynesian) theories of macroeconomics, and will be worth 15% of your overall course grade. You will have three exams, including two midterm exams and a comprehensive final exam, scheduled as shown in the course outline below. The midterm exams will each count 25% of your course grade, and the comprehensive final will count 35% of your course grade. All exams will be essay and/or problem-solving in nature, and can be made up only if you have prior approval from me or a valid medical excuse.
Your course grade will be determined by the weighted average of your papers and exams as follows:
90-100=A, 80-89=B, 70-79=C, 60-69=D, 0-59=F. If your grade is "borderline" (e.g. your numerical average is 89.1), your grade will be the higher of the two possibilities if your final exam score is substantially higher than your earlier scores. In other words, if your numerical average was 89.1 and your final exam score was a 95, you would receive an A in the course. You will have earned the higher grade because the final exam is comprehensive and as such, is the best indicator of your overall level of understanding in the course.

You are expected to attend all classes and should make every effort to do so. The exams are drawn heavily from class materials and discussion. If you must miss class, please see me or get the notes from a classmate that you trust. The text, by itself, is often unclear. You should do all reading before the class in which the material is discussed. Do not fall behind! This course is difficult and the material is cumulative. Thus, failing to fully grasp ideas presented early in the course will inevitably lead to problems later on. Please see me if you are having problems. I want all of you to get through this course with flying colors. Remember, I am here to serve you!!!

D. Course Outline and Reading Schedule:

The following schedule is a tentative guideline for the course materials and class discussion topics. It may be modified when conditions warrant.

Topic 1: Introduction to the course and review of the macroeconomic variables analyzed in the course, including national income accounting identities.
   Class dates: January 12, 17, 19, 24
   Reading: Chapters 1, 2 (including Appendix), 10 (pp. 337-349)

Topic 2: Real sector equilibrium analysis, including the basic Keynesian model (with multipliers), the use of fiscal policy in recessionary situations, and construction of the IS curve.
   Class dates: January 26, 31; February 2, 7
   Reading: Chapter 3

Midterm Exam:
   Class dates: February 9, 14
   Text covered: Chapters 1-3, 10 (pp.337-349)

Topic 3: The IS-LM (Keynesian) model unifying the real (IS) and monetary (LM) sectors including a review of the process of money creation, theories of money demand, an analysis of the relative effectiveness of monetary and fiscal policy in a closed economy, and a discussion of monetary and fiscal policy issues particular to the current economic situation.
   Class dates: February 16, 21, 23, 28; March 1
   Reading: Chapters 4-6, 13 (pp. 424-436)

Topic 4: Small and large open economy policy issues including the determination of exchange rates, balance of payments adjustments, and the impact of the international sector and capital flows on the effectiveness of monetary and fiscal policy (the Mundell-Fleming model).
   Class dates: March 13, 15, 20 (no classes on March 6, 8: spring break)
   Reading: Chapter 7 (pp. 190-212, 219-222)
Midterm Exam:
Class dates: March 22, 27
Text covered: Chapters 4-6, 7 (pp. 190-212, 219-222), 13 (pp. 424-436)

Topic 5: Aggregate supply and demand in the classical and (old) Keynesian models, as well as the analysis of the time paths of adjustment of prices, wages, interest rates, and output, in the short and long run.
Class dates: March 29; April 3
Reading: Chapter 8

Topic 6: New classical and new Keynesian models of business cycle adjustments including the Friedman adaptive expectations/fooling model, the Lucas rational expectations model, the real business cycle model, and the new Keynesian disequilibrium models.
Class dates: April 10, 12, 17 (no classes on April 5: Easter break)
Reading: Chapter 17

Topic 7: Inflation, unemployment, and other policy questions, including the Phillips curve and the impact of inflationary expectations, adverse supply shocks, and the rules vs. discretionary policy debate.
Class dates: April 19, 24
Reading: Chapters 9, 14 (pp. 450-461)

Comprehensive Final Exam:
Class date: Tuesday, May 1 (1:00-2:50)
Text covered: all

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“We educate students of business, enabling them to improve organizations and society, consistent with the Jesuit tradition.”