

Introduction to Macroeconomics

I. Course Organization and Requirements

The course will consist of two lectures and one class per week. Professor Blinder will deliver the lectures. Ji Huang, Fisher B-10, e-mail jihuang@princeton.edu, will be the administrator for the course. Class sections will be handled by Cristian Alonso, Alfonso Cebreros, Eliav Danziger, Ji Huang, Pedro Olea, Carlos Sanz Alonso, and Yu Zhang.

There will be a final examination, a midterm examination, six problem sets, and a short written assignment dealing with current economic policy.

There will be no *preponements* of exams under any circumstances. *Don't even ask.*

II. Grading

Course grades will be computed from three components, with the following weights: final exam 1/2, midterm exam 1/6, class performance 1/3. The score for class performance will be based on the written assignment and the problem sets.

Any student caught cheating on any component of the course will automatically receive a failing grade *for the entire course*.

III. Textbook and Other Readings

1. The textbook for the course (henceforth “Text”) is William J. Baumol and Alan S. Blinder, Economics: Principles and Policy, Twelfth Edition (Cengage Learning: 2012). This is available at Labyrinth. Purchase is required.

You may use either the full hardcover edition or the macroeconomics paperback (referred to as *Macro* below), as you wish. In the course calendar, chapter/page numbers refer to the main text, with the corresponding chapters/pages in *Macro* given in square brackets.

The publisher offers several ancillary learning aids for those who find such things useful. To find a list, Google “cengage baumol,” choose the first entry that comes up, scroll down and click on the book, click on “Supplements,” and then scroll down to “Student Supplements.” Use any (or none) of these aids as, and if, you find them helpful. Nothing from any of these sources is either required or assigned.

2. Alan S. Blinder, After the Music Stopped: The Financial Crisis, the Response, and the Work Ahead (Penguin Press, paperback edition, 2014) is an analytical history, written for lay readers, of the financial crisis and its aftermath. Several chapters are assigned in the course calendar below. Most of the rest is part of your Reading Period assignment. Purchase is optional.

3. All other readings are in the Pequod packet and/or posted on Blackboard in the E-Reserves section. Purchase of the Pequod packet is optional.

IV. Friendly Advice

The experience of generations of students has proven that economics is not a subject that you should let slide until Reading Period. Much of this course is cumulative, with each week's lesson building on what came before. We therefore urge you to keep up to date on a week-by-week basis. If you keep up, most of you will find this an easy course. Falling behind is the surest way to make it a difficult one.

V. Weekly Assignments and Course Calendar

Week 1: February 3-7

- Lectures:
1. Organization of Course and Introduction: Aspects of the Economic Crisis
 2. Rudiments of Supply and Demand—and Why Houses are Special

Class: Supply and demand

Reading: Text, Chapters 1 and 2 (just for reading) and Chapter 4
Note: The Appendix to Chapter 1 is remedial. You should not need the review.
But if you do, read these pages very carefully.

Milton and Rose Friedman, Free to Choose, Chapter 1.

Alan Blinder, After the Music Stopped, Chapter 1 and pp. 27-40 in Chapter 2.
Note: This is to introduce you to the financial crisis and the Great Recession, which will be covered “for real” in Week 8 and in Reading Period.

Week 2: February 10-14

- Lectures:
1. Supply and Demand in Microeconomics and Macroeconomics
 2. The Stock Market: Fundamentals, Bubbles, and Crashes

Class: Supply and demand; production possibilities frontiers
PROBLEM SET #1 IS DUE AT THIS CLASS.

Reading: Text, Chapters 3 and 22 [5]
Appendix to Chapter 19, pp. 419-420 (on discounting)
Note: This appendix does not appear in *Macro*, so it is posted on Blackboard.

Burton G. Malkiel, A Random Walk Down Wall Street (2011 edition),
pp. 31-35, 80-107. (You may find it interesting to skim other parts of this classic book.)

Week 3: February 17-21

- Lectures:
1. Consumer Spending, Wealth, and the Debate over Tax Cuts
 2. Saving, Investment, and Tax Incentives

Class: Basic concepts of macroeconomics

Reading: Text, Chapter 23 [6], including appendix
Chapter 25 [8], excluding appendix

Optional: Text, Appendix to Chapter 25 [8] (on national income accounting)

Week 4: February 24-28

Lectures: 1. Keynes' Great Insight: Equilibrium on the Demand Side of the Economy
2. From the Housing Bubble to the Great Recession

Class: Income determination and the multiplier

PROBLEM SET #2 IS DUE AT THIS CLASS.

Reading: Text, Chapter 26 [9] including both appendices

Paul Krugman, "What Is Wrong with Japan?" in The Accidental Theorist, pp. 123-126

Paul Krugman, two New York Times columns:

"Dwindling Deficit Disorder," March 10, 2013

"Looking for Mr. Goodpain," January 31, 2013

James Surowiecki, The New Yorker, "Hazardous Materials?" February 9/16, 2009, p. 40

Week 5: March 3-7

Lectures: 1. Aggregate Supply and Supply-side Economics
2. Inflation and Deflation: History and Measurement

Class: Fiscal policy

PROBLEM SET #3 IS DUE AT THIS CLASS.

Reading: Text, Chapters 27 and 28 [10 and 11], including both appendices to Chapter 28 [11]

Week 6: March 10-14 MIDTERM WEEK: ONLY ONE LECTURE THIS WEEK

Lecture: Somebody Goofed: What Banks Do—but Sometimes Don't

Class: Definitions of money; T accounts

Reading: Text, Chapter 29 [12]

Week 7: March 24-28

Lectures: 1. Central Banking and Conventional Monetary Policy
2. Near-Zero Interest Rates and Unconventional Monetary Policy

Class: Monetary policy

PROBLEM SET #4 IS DUE AT THIS CLASS.

Reading: Text, Chapter 30 [13]

Alan Blinder, After the Music Stopped, Chapter 9.

Week 8: March 31-April 4

Lectures: 1. Controversies over Monetary Policy
2. Understanding the Financial Crisis and the Recession of 2007-2009

Class: The financial crisis and the Great Recession

Readings: Text, Chapter 32 [15]
Chapter 31 [14]

Alan Blinder, After the Music Stopped, Chapters 2 (pp. 40-55) and Chapter 3.

Week 9: April 7-11

Lectures: 1. Fiscal and Monetary Policy: Experiments on Human Subjects
2. The Great Debate over Growth and Productivity

Class: The burden of the national debt

Reading: Text, Chapter 33 [16]
Chapter 24 [7]

Paul Krugman, "The Accidental Theorist," in The Accidental Theorist, pp. 18-23.

Paul Krugman, "Addicted to the Apocalypse," New York Times, October 24, 2013.

Roger Altman and Richard Haass, "American Profligacy and American Power," Foreign Affairs, November/December 2010, pp. 25-34

National Commission on Fiscal Responsibility and Reform, The Moment of Truth, December 2010, pp. 10-16, 20, 28, 36, 43-44, and 48 (skim the rest)

Week 10: April 14-18

Lectures: The Tradeoff between Inflation and Unemployment

Class: Exchange rates

PROBLEM SET #5 IS DUE AT THIS CLASS.

Reading: Text, Chapter 34 [17] (for the lectures)
Chapter 36 [19], pp. 761-769 [377-385] only (for the class)

Week 11: April 21-25

Lectures: 1. All About Exchange Rates
2. What in the World Happened to Greece—and to Ireland, Portugal, ...?

Class: Macroeconomics in an open economy

Reading: Text, remainder of Chapter 36 [19]
Chapter 37 [20]

Paul Krugman, “Bahtulism: Who Poisoned Asia’s Currency Markets,” pp. 146-152; and
“Making the World Safe for George Soros,” pp. 153-161; both in The Accidental Theorist.

Paul Krugman, “Global Schmobal,” in The Great Unraveling, pp. 367-372

Alan Blinder, After the Music Stopped, Chapter 16.

Week 12: April 28-May 2

Lectures: 1. David Ricardo’s Genius
2. The Case against Protectionism (and Mercantilism)

Class: Comparative advantage
PROBLEM SET #6 IS DUE AT THIS CLASS.

Reading: Text, Chapter 35 [18]

Alan Blinder, Hard Heads, Soft Hearts, Chapter 4

Paul Krugman, “In Praise of Cheap Labor: Bad Jobs at Bad Wages are Better than No Jobs At All,” in The Accidental Theorist, pp. 80-86

Nicholas Kristof, “Where Sweatshops Are a Dream,” New York Times, Jan. 15, 2009

READING PERIOD: May 5-13, 2013

Reading Assignment: Alan Blinder, After the Music Stopped (Penguin Press, paperback edition, 2014), Chapters 4-8, 12-15, 17-18. A question based on this book (*excluding* Chapters 10 and 11 on financial reform) will be on the final exam.

Written Assignment: You will be asked to prepare a 2-3 page analysis or critique of a statement on economic policy that will be distributed during the last week of classes. Specific instructions will be furnished at that time. The paper is due on Tuesday, May 13 (Dean’s Date).

Important Note to Avoid Confusion: These are *two, separate* assignments. The Written Assignment is part of your *class grade* and is due on May 13. The Reading Assignment will be examined on the *final exam*. You must do *both*.