

ECON 3123: Macroeconomic Theory I

1. WHO ARE THE INSTRUCTORS?

General Information

- Instructor: Yang Lu (yanglu@ust.hk)
- Section Time and Location (3 Units)
 - Mon 3:00 – 4:20 PM, LSK 1007
 - Fri 10:30 – 11:50 AM, LSK 1007
- Office hours: Mon 4:30 – 6:00 PM, LSK 6059.
- Course Website: <https://canvas.ust.hk>

Teaching Assistant

- Harlly Zhou (hzhouci@connect.ust.hk)
 - T1: Mon 10:30 – 11:20 AM, LSK 1007
 - Office hours: Tue 1:00 – 3:00 PM, LSK 5067
- Weekly Tutorials
 - In tutorials, we will review course material, sharpen analytical techniques, and cover exercise questions.
 - The first tutorial will be held on Sep 15.

2. WHAT IS THIS COURSE ABOUT?

Course Description

This is an introductory course to macroeconomic theory. It covers business cycles in a closed economy and an open economy. This course deals with theory, data, and economic policies to develop a balanced perspective on the real-world economic environment.

We define major macroeconomic variables, such as gross domestic product, price level, and unemployment rate. Then, we will investigate how the goods and money markets move in the short run (IS-LM). Building on the IS-LM model, we introduce the labor market and prices into the analysis and develop the IS-LM-PC framework for the short and medium run. Using the theoretical framework, we study what can be done by a fiscal authority and a central bank to stabilize macroeconomic fluctuations. Finally, we extend our framework to open economies and investigate the interactions of domestic macroeconomic variables with exchange rates, trade, and foreign economic conditions.

Required Textbook

- Blanchard, Olivier (2021), *Macroeconomics*, 8th ed., Pearson.
- Chapters from the textbook will be assigned as readings. You are expected to read them.
- Because this textbook's 7th and 8th editions are substantially different from the previous editions, you are strongly advised to have the recent editions.

Macroeconomics Sequence

- Building on the materials covered in this course, students will learn more advanced topics in Macroeconomic Theory II (ECON 3143).
- The topics covered in ECON 3143 include but are not limited to, long-run economic growth, micro foundation of macroeconomics, business cycles, and the open economy.
- Students will learn more formal and rigorous analytical tools, methods, and modern models in ECON 3143.

References

This list is only for those who find macroeconomics fascinating and want to study further in the future. They are not included in the required readings.

- Garin, Julio, Robert Lester, and Eric Sims (2021). *Intermediate Macroeconomics*.
https://www3.nd.edu/~esims1/gls_textbook.html
- Schmitt-Grohe, Stephanie, Martin Uribe and Michael Woodford (2022), *International Macroeconomics*.
- Landefeld, J. Steven, Eugene P. Seskin, and Barbara M. Fraumeni (2008). “Taking the Pulse of the Economy: Measuring GDP.” *Journal of Economic Perspectives* 22(2): 193–216.
<https://www.aeaweb.org/articles?id=10.1257/jep.22.2.193>
- Romer, David H. (2000). “Keynesian Macroeconomics without the LM Curve.” *Journal of Economic Perspectives* 14(2): 149–69.
<https://www.aeaweb.org/articles?id=10.1257/jep.14.2.149>
- Bernanke, Ben (2013), “A Century of US Central Banking: Goals, Frameworks, Accountability.” *Journal of Economic Perspectives* 27(4): 3-16.
<https://www.aeaweb.org/articles?id=10.1257/jep.27.4.3>

Course Intended Learning Outcomes (ILOs) and their Mapping to School Intended Learning Outcomes (SILOs) and Program Intended Learning Outcomes (PILOs)

Upon successful completion of this course, you should be able to:

- ILO1) Identify important macroeconomic variables and understand their relationships. (SILO #3, PILOs #1 and 3)
 - ILO2) Gather and organize the relevant macroeconomic information for a given context. (SILO #3, PILOs #1 and 3)
 - ILO3) Apply tools learned in class to analyze some historical and current macroeconomic events. (SILOs #1 and 4, PILOs #3 and 4)
 - ILO4) Discuss the consequences of a macroeconomic shock or a policy intervention. (SILOs #2 and 4, PILO #2)
 - ILO5) Develop an appreciation for macroeconomics and a desire to continue further study. (SILOs #2 and 3, PILO #4)
- For the details of SILOs and PILOs, please refer to the following link:
 - (SILO) <https://bmundergrad.hkust.edu.hk/academics/academic-programs/learning-outcomes>
 - (PILO) <https://econ.hkust.edu.hk/programs-n-courses/econ/econ-curriculum>

Course Outline and Tentative Schedule

- I. Introduction and Measurement (Chapters 1 and 2): Weeks 1-2

- II. The Short Run
 - a. The Goods Market and The IS Relation (Chapter 3): Week 3
 - b. Financial Markets and The LM Relation (Chapter 4): Week 4
 - c. The IS-LM Model and its Extended version (Chapter 5&6): Week 5
 - d. Financial Markets and Expectations (Chapters 14): Week 7

- III. The Medium Run
 - a. The Labor Market (Chapter 7): Week 8
 - b. The Phillips Curve, the Natural Rate of Unemployment, and Inflation (Chapter 8): Week 9
 - c. From the Short to the Medium Run: The IS-LM-PC Model: Week 10

- IV. The Short Run in an Open Economy
 - a. Openness in Goods and Financial Markets (Chapter 17): Week 11
 - b. The Goods Market in an Open Economy (Chapter 18): Week 12
 - c. Output, the Interest Rate, and the Exchange Rate (Chapter 19): Week 13

- V. The Long Run (if time permits)

3. ASSESSMENT / EXAMS / PROBLEM SETS

Assessment Scheme

Problem Sets	20%	4 problem sets
Midterm	40% or 25%	In-class, Oct 10, Friday
Final	40% or 55%	TBA

- $20\% * \text{Problem Sets} + \text{Max} \{ 40\% * \text{Midterm} + 40\% * \text{Final}, 25\% * \text{Midterm} + 55\% * \text{Final} \}$
- Attending lectures and tutorials is not mandatory but strongly recommended.
- The assessment marks will be released on Canvas within two weeks.

Exam, Review Session, and Regrading Policy

- The final exam is cumulative but focuses on the materials discussed after the midterm.

Midterm exam: There will be NO make-up exam for midterm.

- If you are going to miss the midterm for medical reasons (you will need to provide a valid medical or legal document), please email INSTRUCTOR and TA **before** the exam. Your final exam will then count for 80% of your grade. If you skip midterm without any advance notification and justifiable cause, you will receive 0 for the midterm exam.

Final exam: A make-up exam will only be granted on medical grounds.

- You must notify INSTRUCTOR and TA by email **before** the exam.
- You must provide a valid medical or legal document.
- The make-up exam will take the form of an essay or a report on an assigned topic.

Review sessions: We will hold a review session before each exam (Oct 6, Nov 28).

Regrading policy: If you believe that there is an error in the grading:

- You can file a formal, typed regrading request to your TA. The request should list the question you want to be regraded and an explanation of why.
- The request should be emailed to your TA within 7 days after the exam is returned.
- The TA reserves the right to regrade the entire exam. Scores may increase or decrease as a result.
- The TA further reserves the right to reject any request for fewer than 3 points.

Problem Sets

- We will have four problem sets, and all of them will be counted toward the letter grade.

- Working in groups is welcome and recommended. However, each student should submit individually written reports.
- Late submissions will not be accepted.

Mapping of Course ILOs to Assessment Tasks

- Problem Sets (Course ILOs 1-5). Some problem set questions are designed to investigate the relationship between macroeconomic variables using real-world data (ILO 1). Students can learn how to access, organize, analyze, and display economic data when answering the problem set questions (ILO 2). Furthermore, by looking at time series data through the framework of macroeconomic models we would develop in the course, students could explain macroeconomic development in the past and present (ILOs 3 and 4). Finally, understanding the course content's real-world relevance could stimulate students' academic desire and intellectual curiosity for further study in related topics (ILO 5).
- Midterm and Final (Course ILOs 1-5). The importance of major macroeconomic variables in understanding business cycles and their dynamics will be emphasized throughout the semester and tested in exams (ILOs 1 and 2). A formal investigation of the variables, specifically their joint covariation, required tools to be discussed in the course (ILO 3). It will be checked whether students can apply the tools to various macroeconomic events, especially real-world events, for a systematic understanding of them (ILOs 3 and 4). Similar to the problem set, realizing the macroeconomic framework's power in understanding complex macroeconomic dynamics would make students develop an appreciation for macroeconomics and a desire to continue further study (ILO 5).

Final Grade Descriptors

- A (Excellent Performance). Demonstrate a deep understanding of macroeconomic variables, their measurement, their systematic relationships over business cycles, and stabilization policies' workings. Exhibit superb skills to identify the key drivers of macroeconomic dynamics and propose necessary policies by governments and central banks to address potential difficulties over business cycles. Effectively communicates complex logic and chain of events using equations, graphs, and intuitions.
- B (Good Performance). Shows a solid grasp of macroeconomic variables, their measurement, their systematic relationships over business cycles, and stabilization policies' workings. Demonstrate good skills to identify the key drivers of macroeconomic dynamics and propose necessary policies by governments and central banks to address potential difficulties over business cycles. Explains major parts of macroeconomic phenomena using equations, graphs, and intuitions.
- C (Satisfactory Performance). Possesses an adequate understanding of macroeconomic variables, their measurement, their systematic relationships over business cycles, and stabilization policies' workings. Display satisfactory skills to identify the key drivers of macroeconomic dynamics and propose necessary policies by governments and central banks to address potential difficulties over business cycles. Communicates parts

of macroeconomic phenomena using equations, graphs, and intuitions but may lack depth in analyses.

- D (Marginal Pass). Understand the basics of macroeconomic variables, their measurement, systematic relationships over business cycles, and stabilization policies' workings. Shows limited skills to identify the key drivers of macroeconomic dynamics and propose necessary policies by governments and central banks to any potential difficulties over business cycles. Communicates limited parts of macroeconomic phenomena using equations, graphs, and intuitions but may lack depth in analyses and may do it incorrectly.
- F (Fail). Demonstrate insufficient understanding of macroeconomic variables, their measurement, their systematic relationships over business cycles, and stabilization policies' workings. Lacks skills to identify the key drivers of macroeconomic dynamics and propose necessary policies by governments and central banks to address any potential difficulties over business cycles. Struggles to explain macroeconomic phenomena using equations, graphs, and intuitions.

4. WHEN YOU HAVE QUESTIONS OR SUGGESTIONS...

Email policy

- Please add [Econ 3123] in the title line of your email. It may take up to 2 or 3 days to respond during busy exam periods.

Office Hours

- Time and Location: Mon 4:30 – 6:00 PM, LSK 6059.
- If you are unavailable during the above time, we can arrange a separate meeting. Alternatively, we can just talk before or after each lecture.
- You can also go to the TA's office hours.
- Questions asked right before exams and due dates of problem sets may not be answered.

5. STUDENT COUNSELING

Many students experience personal and family problems, as well as emotional difficulties, such as depression, suicidal thoughts, and anxiety, while in college. The Counseling and Wellness Center is available to consult with you regarding various emotional health issues that may affect you or your friends. The Counseling and Wellness Center is in Room 5003, Academic Building (via Lift 3). You can also make an online appointment with student counselors.

Outside office hours, you can call 8208 2688, which is a 24-hour helpline for all HKUST students.