

## 14.02: PRINCIPLES OF MACROECONOMICS Fall 2016

Why do economies expand sometimes, as in the U.S. for the last six years, but contract at other times, as in 2008-2009? What is a recession? What happened in 2008-09 when the world economy was hit by the worst recession since the Great Depression of the 1930s? What can government policies, particularly monetary and fiscal policies, do to affect these macroeconomic outcomes? Why does the unemployment rate vary over time? Why is there unemployment at all? Why do prices rise at different rates at different times? Why do exchange rates between currencies vary over time? How do economic policies in one country affect other countries? Why do economies grow at different rates? Why has China's growth rate exceeded that of the U.S. for the last two decades? What explains movements in the stock market? These are some of the core questions of macroeconomics. If you are curious about the answers, then this is the course for you.

The course is organized around four major themes: the determinants of short-run economic fluctuations in the closed and open economy; the determinants of long-run growth; the investigation of government policies, including monetary policy, government spending, and exchange rate policy; and the analysis of key economic sectors, such as consumer spending, business investment, and financial markets.

### FACULTY MEMBER:<sup>1</sup>

Ricardo Caballero: [caball@mit.edu](mailto:caball@mit.edu)

### TEACHING ASSISTANTS:

Pablo Azar, [pazar@mit.edu](mailto:pazar@mit.edu)

Stacy Carlson, [carlson1@mit.edu](mailto:carlson1@mit.edu)

Mariano Spector, [spectorm@mit.edu](mailto:spectorm@mit.edu)

Marco Tabellini, [mtabe@mit.edu](mailto:mtabe@mit.edu) (Head TA)

**COURSE FORMAT:** The course has two one-hour lectures (M-W) and one required one-hour recitation (F), every week. For the lectures, you can either attend Professor Caballero's on **Mondays and Wednesdays at 2 PM, in 10-250**, or choose the smaller class-size format with one of the TAs:

Date and Time	Room/Teaching Assistant
Mon-Wen 10AM	35-308/ Stacy Carlson
Mon-Wen 11AM	35-308/ Mariano Spector

The one-hour Friday recitations will be held at: **10AM and 11AM in Room 35-308; at 12PM and 1PM in room 1-190**. You can choose the option that is most convenient to you. 10AM and 11AM recitations will be conducted by Pablo Azar. Stacy Carlson and Mariano Spector will alternate for the recitations of 12PM and 1PM.

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<sup>1</sup> Support staff: Aaron Sullivan, [aaronds@mit.edu](mailto:aaronds@mit.edu).

It may be necessary, as further information on class enrollment becomes available, to make changes in recitations or sections. If any one section is too large, some students may be asked to switch their selections. Changing sections does not require any paperwork with the Registrar or the Department of Economics. If you wish to switch sections, please go to the “Membership Page” on the [14.02 Stellar website](#) and make the appropriate change. Everyone is required to select a recitation session R01-R04 by September the 22<sup>nd</sup>. **From then on, all the psets’ solutions should be turned in at your selected recitation session.**

**OFFICE HOURS:** All TA’s will have office hours once a week. These office hours are open to students from all sections or recitations. The time and place of each TA’s office hours will be posted on the 14.02 Stellar website on the “staff list” page. Professor Caballero will be available on an appointment basis. Please direct any administrative questions regarding the course to the Head TA, Marco Tabellini ([mtabe@mit.edu](mailto:mtabe@mit.edu)).

**READINGS:** The primary text for the course is the 7th edition of *Macroeconomics*, by Olivier Blanchard. This book is available at the Coop and several copies will be on reserve at [Dewey Library](#). For many classes there will be additional reading material posted on the [14.02 Stellar website](#). You are also encouraged to read the economics content of The Economist, the Wall Street Journal, or the Financial Times regularly during the semester to stay abreast of current economic events, which we will periodically be discussing in class.

**EVALUATIONS: PROBLEM SETS, MID-TERMS, & FINAL EXAM:** The course grade will be based on **nine problem sets and three quizzes**. Each quiz will count for 25% of the grade; a problem set grade, determined as the average of the eight best problem set scores, will account for the remaining 25%. There will be no re-grades on problem sets, that will be graded according to a check-, check, check+ scale; the “best 8 of 9” rule is designed to address potential concerns. Grades on each evaluation – the midterms, the final, and the total problem set score – will be standardized by the mean and the standard deviation of the scores for the full 14.02 class.

Each quiz will cover material in the lectures since the previous quiz. Each quiz will last for 90 minutes and will take place in Room 50-340. The dates and times are as follows:

**First Quiz: 09/29/2016. Time 7.30PM-9PM**

**Second Quiz: 10/27/2016. Time 7.30PM-9PM**

**Third Quiz: 12/08/2016. Time 7.30PM-9PM**

Problem sets will be distributed on Fridays and will be due one week later. Please hand in problem sets to TAs in class or in recitation, or deliver them to the 14.02 box outside room E52-301 by 4pm on the problem set due date (be sure to place your problem set in the right stack or it will not count). Late problem sets will not be accepted. Problem sets will be returned during recitation by your TA or you can pick them up in the 14.02 pick-up box outside of E52-301.

We will use the [14.02 Stellar website](#) to distribute problem sets and solutions, past exams, and other announcements. We will also use the 14.02-students public mailing list to distribute important

announcements and room changes. The full schedule for classes, quizzes, and problem set assignments can be found in a document on the “Materials” page of the [14.02 Stellar website](#).

There will be no recitations or lectures on Fridays of the weeks with quizzes (see dates above). The last lecture (December 14), following Quiz 3, will be open-ended and dedicated to discussing the dominant global macroeconomic concerns at that time

**COLLABORATION POLICY:** Collaboration on problem sets is permitted, but please do write up your answers separately. Collaboration on quizzes is **strictly prohibited**, and any such activity will be considered a breach of academic honesty. Such breaches will be handled following the procedures in the latest MIT Guidelines on Academic Honesty, which are given in detail in MIT's Policies and Procedures.

**TOPICS TO BE COVERED (Tentative list: will be updated throughout the semester):**

**Before Quiz 1:** Economic measurement (Chapter 2), Goods and Financial Markets (Chapters 3 & 4), Short Run Fluctuations and the IS-LM Model (Chapters 5 and 6)

**Between Quiz 1 and Quiz 2:** Labor Markets (Chapter 7), The Phillips Curve, Aggregate Supply, and Aggregate Demand (Chapters 8 & 9), Exchange Rates and the Open Economy (Chapters 17-19)

**After Quiz 2:** Theory of Economic Growth (Chapters 10-13), Expectations and Interest Rates (Chapter 14), Term Structure and the Stock Market (Chapter 14), Consumption and Investment (Chapter 15), Expectations and Policy (Chapter 16).