

COURSE SYLLABUS
Macroeconomic Theory and Policy
API-121
Fall 2002

ADMINISTRATIVE INFORMATION:

Faculty: Suzanne Cooper
Office: L112
Phone: 5-0390
Office Hours: Wednesdays, 2-4 p.m.
Thursdays, 1-3 p.m.
Faculty Asst.: Kate Regnier, L376A, 5-9528
Schedule: Tuesdays and Thursdays, 10:10-11:30 a.m. in L140
Review Session Fridays 11:40a.m.-1 p.m. in L140

COURSE DESCRIPTION: This course will teach students the basic tools of macroeconomics and apply them to real world economic policy. The goals of the course are for students to (a) understand how to evaluate macroeconomic conditions such as unemployment, inflation, and growth (b) understand how monetary policy and fiscal policy can be used to influence short-run macroeconomic conditions (c) understand media accounts of macroeconomic events. The course will cover a broad range of topics in macroeconomic policy. Examples of issues to be discussed include the role of fiscal and monetary policies in stabilizing the economy, the relationship between inflation and unemployment, the role of government policy in promoting long-term economic growth, monetary and fiscal policies in an open economy, European Monetary Union, deficits, and stabilization and reform.

The course will be structured around the tools (models) of macroeconomics, using primarily graphs, and occasionally equations. However, motivation for these tools, and examples of their use will always be taken from current and recent real-world macroeconomics events and conditions.

AUDIENCE: This course is intended for students who are interested in learning and applying macroeconomic models of the economy to addressing current issues in macroeconomic policy. Previous exposure to economics at the level of API-101 is recommended.

REQUIREMENTS:

Students will be expected to prepare assigned readings before class.

Students will be assigned problem sets throughout the course in order both to reinforce the use of tools for policy analysis and to expand the issues analyzed beyond those in the classroom. Late problem sets will receive only half credit, and under no circumstances will use of distributed answers be acceptable. Students are encouraged to work in small groups (2-3 students), but **each student must write up his or her answers separately**, and must indicate the names of other members of the study group on the assignment. All assignment grades count; in this course the lowest assignment grade is NOT dropped.

In addition, there will be a midterm and a final exam, both closed-book.

Course grades will be based on these types of assignments as follows: Problem Sets: 30%, Midterm: 30%, Final Exam: 40%.

MATERIALS: Readings will come primarily from a text, Macroeconomics, Fifth Edition, by N. Gregory Mankiw, New York:Worth Publishers, 2002. If students have access to an earlier edition of this book and do not want to purchase the fifth edition, that is fine. I can provide comparable chapter numbers for earlier versions to assist you. The text is available at the Coop. Due to the cost, I have listed it as "recommended" at the Coop, and have provided as many copies as possible to the KSG library. I do expect that you will do the readings from the text, but I do not expect that everyone will purchase the text.

Other than this book, the course will use a collection of other required readings, most of which will be available electronically from the course pages. Readings will include discussions of economic policy by government policymakers, non-government economists, and the press. In addition, copies of optional readings, which go into further depth on some topics, will be available in a packet on reserve in the KSG library.

In addition, students will be assigned readings from current periodicals, as they become available.

Students are strongly encouraged to keep up-to-date with current macroeconomic events with a periodical such as The New York Times, The Wall Street Journal, The Economist, or another periodical with frequent coverage of economics news. These are all available online and in the KSG library.

COURSE OUTLINE:

- (R-E): Required, available electronically from the course page
(R-Lex)) Required, available from Lexis at
<http://80-web.lexis-nexis.com.ezp2.harvard.edu/universe/>
(O): Optional, available in KSG library

Thurs, Sept. 12 Introduction to Macroeconomic Policy Issues and Data

Reading:

- Mankiw, Chapters 1-2
(R-E) "Economic Indicators for Consumers: Key Measures of Consumer Well-Being to Watch for in the New Media," Federal Reserve Bank of Richmond.
<http://www.rich.frb.org/pubs/econind/>
(O) Chriszt, Michael J., "Are International Comparisons of Inflation and Employment Valid?" Economic Review, Federal Reserve Bank of Atlanta, Nov./Dec. 1993, pp. 23-36.
(O) Steindel, Charles, "Are There Good Alternatives to the CPI?" Current Issues in Economics and Finance, Federal Reserve Bank of NY, April 1997, v.3 no.6, pp. 1-6.
http://www.ny.frb.org/rmaghome/curr_iss/ci3-6.pdf

Tues., Sept. 17 The Macroeconomy in the Long Run I

Reading:

- Mankiw, Chapter 3
(R-E) "The White Heat of Technology," The Economist, May 25, 2002, p.76.
(O) Webb, Roy H., "National Productivity Statistics," Economic Quarterly, Federal Reserve Bank of Richmond, v. 84, Winter 1998, pp. 45-64.
<http://www.rich.frb.org/eq/pdfs/winter1998/webb.pdf>

Thurs., Sept. 19 The Macroeconomy in the Long Run II

Reading:

- (R-E) DeLong, Bradford, "Boom Time in Europe," Financial Times, July 24, 2002, p.17.
(R-E) "Britain: Waiting for the New Economy," The Economist, Oct. 14, 2000, pp. 70-71.
(O) Krugman, Paul, The Age of Diminished Expectations, Third Edition, MIT Press, 1997, pp. 11-20.

Tues., Sept. 24 Unemployment in the Long Run

Reading:

Mankiw, Chapter 6

- (R-E) "Curbing Unemployment in Europe: Are There Lessons From Ireland and the Netherlands?" Current Issues in Economics and Finance, May 2001, v.7 no.5, pp.1-6.
http://www.ny.frb.org/rmaghome/curr_iss/ci7-5.pdf

Thurs., Sept. 26 Money, Inflation, and Interest Rates in the Long Run

Reading:

Mankiw, Chapter 4, Chapter 9.2

- (R-E) Barber, Tony, "Money Supply Rise Boosts EU Inflation Fears," Financial Times, June 28, 2002.
- (O) Fitzgerald, Terry, "Money Growth and Inflation: How Long is the Long Run?" Economic Commentary, Federal Reserve Bank of Cleveland, Aug. 1, 1999.
<http://www.clev.frb.org/research/com99/0801.htm>

Tues., Oct. 1 Central Banks and Monetary Policy

Reading:

Mankiw, Chapter 18.1

- (R-E) "Monopoly Power Over Money," The Economist, Nov. 20, 1999.
- (R-Lex) Stevenson, Richard W., "Fed Wants to Raise Interest Rate on Its Direct Loans to Banks," The New York Times, May 18, 2002, p.C4.
- Federal Reserve Board, "Monetary Policy Report to Congress," Board of Governors of the Federal Reserve System, July 2002.
<http://www.federalreserve.gov/boarddocs/hh/2002/july/FullReport.pdf>

Thurs., Oct. 3 Short Run Economic Fluctuations

Reading:

Mankiw, Chapter 9, except 9.2

- (R-E) "Defining a Downturn," The Economist, Aug. 4, 2001, p.62.

Tues., Oct. 8 The Keynesian Model of Fluctuations and the Role for Government Policy I

Reading:

Mankiw, Chapter 10.1

- (R-E) "Poor Planning," The Economist, March 10, 2001, p.64.

(R-E) "Recession? What Recession?" The Economist, Feb. 2, 2002, p.28.

Thurs., Oct. 10 The Keynesian Model of Fluctuations and the Role for Government Policy II

Reading:

Mankiw, Chapter 10.2

(R-E) "When Will Interest Rates Rise?" The Economist, March 23, 2002, p.29.

Tues., Oct. 15 The Keynesian Model of Fluctuations and the Role for Government Policy III

Reading:

Mankiw, Chapter 10.3

(R-E) Miller, Rich, "Can Rate Cuts Do The Job?" Business Week, Feb. 12, 2001, p.32.

(R-E) Nakamoto, Michiyo, "Koizumi Supports Tax Cuts in Policy Reversal," Financial Times, July 29, 2002.

Thurs., Oct. 17 The Keynesian Model of Fluctuations and the Role for Government Policy IV

Reading:

Mankiw, Chapter 11.1-11.2

(R-E) "Terrible Twins," The Economist, June 15, 2002, p.75.

(R-E) Baker, Gerard and Crooks, Ed, "Keynes Revisited," Financial Times, Oct. 6, 2001.

Tues., Oct. 22 Recessions and Policy Goals

Reading:

(R-E) Samuelson, Robert J., "It's Now Time For A Tax Cut," Newsweek, Jan. 15, 2001, p.25.

(R-E) Abrahams, Paul, "Japanese Business Confidence Shows First Rise in Two Years," Financial Times, April 6, 1999, p.20.

(R-Lex) WuDunn, Sheryl, "The Land of the Rising Outlook," The New York Times, March 11, 1999, p.C1.

(O) McNees, Stephen K., "The 1990-91 Recession in Historical Perspective," New England Economic Review, Federal Reserve Bank of Boston, Jan./Feb. 1992, pp. 3-22.

Thurs., Oct. 24 Review for Midterm Exam

Tues., Oct. 29 Midterm Exam

Thurs., Oct. 31 The Open Economy - Introduction

Reading:

Mankiw, Chapter 5

- (R-E) "Finance and Economics: Big MacCurrencies," The Economist, April 27, 2002, p.76.
- (R-E) Goldman, Corey, "Like Dollar in U.S., Loonie Buys As Much Here," Toronto Star, Feb. 4, 2002, p.E5.
- (O) Higgins, M. and Klitgaard, T., "Viewing the Current Account Deficit as a Capital Inflow," Current Issues in Economics and Finance, v. 4 no. 13, Dec. 1998, Federal Reserve Bank of New York, pp. 1-6.
http://www.ny.frb.org/rmaghome/curr_iss/ci4-13.pdf

Tues., Nov. 5 The Open Economy in the Short Run I

Reading:

- (R-E) Lecture Notes on the Mundell-Fleming Model
- (R-E) Fan, Liang-Shing and Fan, Chuen-Mei, "The Mundell-Fleming Model Revisited," American Economist, Spring 2002.
- (O) Mankiw, Chapter 12

Thurs., Nov. 7 The Open Economy in the Short Run II

Reading:

- (R-E) "Ready to Pounce," The Economist, April 13, 2002, p.71.
- (R-E) "Base Effects," The Economist, Feb. 23, 2002, p.79.
- (R-E) "Currency Dilemmas," The Economist, Nov. 18, 2000, p.90.

Tues., Nov. 12 European Monetary Union

Reading:

- Mankiw, Chapter 12.5
- (R-E) "Trust or Mistrust Thy Euro Neighbor," The Economist, July 21, 2001, pp.41-42.
- (R-E) "The European Central Bank: The Terrible Twos Begin," The Economist, Jan. 6, 2001, pp.63-65.
- (O) Klein, Michael W., "European Monetary Union," New England Economic Review, Federal Reserve Bank of Boston, March/April 1998, pp.3-12.
<http://www.bos.frb.org/economic/neer/neer1998/neer298a.pdf>

Thurs., Nov. 14 Inflation and Unemployment I

Reading:

- Mankiw, Chapter 13
- (R-E) "Productivity and the NAIRU" in Economic Report of the President, January 2001, pp. 73-74.
http://w3.access.gpo.gov/usbudget/fy2002/pdf/2001_erp.pdf
- (O) "Revised OECD Measures of Structural Unemployment," OECD Economic

Outlook, Dec. 2000.

- (O) Espinosa-Vega, Marco A., and Russell, Steven, "History and Theory of the NAIRU: A Critical Review," Economic Review, Federal Reserve Bank of Atlanta, Second Quarter 1997, pp. 4-25.
http://www.frbatlanta.org/publica/eco-rev/REV_ABS/97ER/Q2/Espinosa.pdf

Tues., Nov. 19 Inflation and Unemployment II

Reading:

Mankiw, Chapter 14

- (R-E) Corrigan, Thomas and Yatrakis, Pan, "The Phillips Curve and The Federal Reserve: Were the 1999-2000 Interest Rate Hikes Really Necessary?" Business Economics, July 2001.
- (O) Chang, Roberto, "Policy Credibility and the Design of Central Banks," Economic Review, Federal Reserve Bank of Atlanta, First Quarter 1998, pp.4-15.
http://www.frbatlanta.org/publica/eco-rev/REV_ABS/98er/q1/chang.pdf
- (O) Mankiw, Appendix to Ch. 14.

Thurs., Nov 21 Economic Growth and Convergence Across Countries I

Reading:

Mankiw, Chapter 7

- (O) Stiroh, Kevin J., "What Drives Productivity Growth," Economic Policy Review, Federal Reserve Bank of New York, March 2001, pp. 37-59.
http://www.ny.frb.org/rmaghome/econ_pol/1200stir.pdf

Tues., Nov. 26 Economic Growth and Convergence Across Countries II

Reading:

Mankiw, Chapter 8

- (R-E) Krugman, Paul, "The Myth of Asia's Miracle," Foreign Affairs, Nov. 1994.
- (O) Solow, Robert M., "Perspectives on Growth Theory," Journal of Economic Perspectives, Winter 1994, vol. 8, no. 1, pp. 45-54.

Thurs., Nov. 28 NO CLASS. THANKSGIVING HOLIDAY

Tues., Dec. 3 Deficits and Debt

Reading:

Mankiw, Chapter 15

- (R-E) Dwyer, Gerald P. Jr and Hafer, R.W., "The Federal Government's Budget Surplus: Cause for Celebration?" Economic Review, Federal Reserve Bank of Atlanta, Third Quarter 1998, pp.42-51.
http://www.frbatlanta.org/publica/eco-rev/REV_ABS/98er/q3/Dwyer.pdf
- (R-E) "Public Debt: Private Asset," Federal Reserve Bank of Chicago, Jan. 1999.
<http://www.chicagofed.org/publications/publicdebt/publicdebt.pdf>
- (O) Easterly, William and Schmidt-Hebbel, Klaus, "Fiscal Deficits and Macroeconomic Performance in Developing Countries," World Bank Research Observer, vol. 8, no. 2, 1993, pp. 211-237.

Thurs., Dec. 5 Stabilization and Reform

Reading:

- (R-E) "Waiting for the IMF to Tango," The Economist, March 30, 2002, p.31.
- (R-E) "Brazil and the IMF: First Steps To Safety," The Economist, March 13, 1999, pp.89-90.
- (O) Whitt, Joseph A., Jr., "The Mexican Peso Crisis," Economic Review, Federal Reserve Bank of Atlanta, Jan/Feb 1996, pp. 1-20.
http://www.frbatlanta.org/publica/eco-rev/REV_ABS/96ER/J_whi811.pdf
- (O) Rodrik, Dani, "Understanding Economic Policy Reform," Journal of Economic Literature, v. 34 no. 1, March 1996, pp. 9-41.

Tues., Dec. 10 "What We Know / What We Don't"

Reading:

Mankiw, Epilogue

Thurs., Dec. 12 Final Exam Review

SCHEDULE OF ASSIGNMENTS

Assignment Number	Date Distributed	Date Due
1	September 24	October 1
2	October 1	October 8
3	October 15	October 22
4	November 5	November 12
5	November 19	November 26
6	December 3	December 10