

Econ 501: Macroeconomics Analysis and Policy
VPD 105
University of Southern California
Ratika Narag, PhD

SPRING 2016

Office: KAP 116C
Office Hours: Monday 10 am-12 pm
E-Mail: narag@usc.edu

Teaching Assistant: Jingbo Wang, jingbowa@usc.edu, Office hours: TBA

Course Objectives: This is a one-semester treatment of macroeconomics for Master's degree students. The course will examine theories of growth and fluctuation, with some empirical applications. It aims to familiarize students with the workhorse models economists use to think about long term growth and business cycle fluctuations. In addition, it will introduce students to asset pricing and the consumption based capital asset pricing model. We will also be discussing relevant global macroeconomic issues such as the great recession and the Eurozone area.

As we go along the semester, I may have to adjust the pace of the course and consequently, the readings and lecture schedule will be updated accordingly.

Testing and Grading: There will be three examinations, 2 Midterm exams in class during the Fall Semester and a Final exam. Each Midterm accounts for 25 percent of your grade and the Final accounts for 50 percent of your grade. The final is cumulative. The first Midterm exam is scheduled for **February 22, 2016** and the second Midterm is scheduled for **April 06, 2016**. The final exam is scheduled in accordance with the University-wide examination schedule.

Please do not miss the exams. If you foresee any reason that you may miss an exam, please see me within the first 2 weeks of the Spring Semester. Keep in mind that apart from conflicts with University-sponsored activities, there are very few legitimate foreseeable reasons for missing an exam. If you do not see me within the first two weeks, the only valid excuses for missing an exam are documented medical or family emergencies.

I will assign problem sets and post answers, but these will not be graded. You are strongly encouraged to complete these problems independently, however. Struggling with problems is the best way to learn the material and solve the models.

Textbook and Readings: The recommended text for the course is David Romer, Advanced Macroeconomics, 4th edition. (New York: McGraw – Hill, 2012)

Supplementary readings include lecture notes, which I will distribute as we proceed, as well as journal articles and selections from other books. The required readings are indicated by a star; the other items are recommended but not required.

Other useful books are listed below. Jones is excellent on growth and slightly easier than Romer while Barro/Sala-i-Martin is more advanced, but its Chapter 1 is pretty accessible.

Blanchard and Fischer is the classic text, for all the other parts of the course. It is more advanced than Romer, but it is worth consulting.

Robert J. Barro and Xavier Sala-i-Martin, *Economic Growth*, McGraw Hill.

Olivier J. Blanchard and Stanley Fischer, *Lectures on Macroeconomic Theory*, MIT Press.

David K. H. Begg, *The Rational Expectation Revolution in Macroeconomics*, Johns Hopkins University Press.

Charles Jones, *Introduction to Economic Growth*, Norton.

I will not always cover all material in the assigned chapters and readings in class but will expect you to have done the reading.

Due to the structure of the course, a student will not have a successful learning experience if he or she is not able to put in the required time outside of the classroom doing the readings and working out the models independently. Also, students who are not adequately prepared can slow the class down and take away from the quality of the experience for those students who are prepared.

Students are required to read the business section of a major newspaper—preferably The Wall Street Journal, the Financial Times, or The Economist—in order to stay abreast of developments in the world economy.

Learning by Doing:

- You don't learn graduate macroeconomics just by listening in lecture or reading the book.
- You *do* learn it by doing problems.
- Working in groups is strongly encouraged.
- Try all the problems yourself before meeting with your study group.
- You must write up your own solution. If you have to copy someone else's, it means you don't understand it (and will not be able to answer related questions on the exam).
- **Remember**, You don't really understand something until you can explain it to someone else.

Website: There will be a course website on the blackboard system. The syllabus, reading and other material will be posted on the class website.

Academic Accommodations: Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early as possible in the semester. DSP is located in STU 301, and is open 8.30am-5.00pm, Monday through Friday. The phone number for DSP is (213)-740-0776.

Academic Integrity Policy: We are committed to upholding the University's Academic Integrity code as detailed in the SCampus Guide. It is the policy of the Economics Department to report all violations of the code. Any serious violation or pattern of violations of the Academic Integrity Code will result in the student's expulsion from the major or minor, or from the graduate program.

Course Outline (Tentative)

I. Introduction and Math Review

- A. Math Review: Calculus, Optimization, Difference equations etc.
- B. Introduction: Macroeconomics methodology, Key Business Cycle Facts, Introduction to Growth Facts
Lecture Notes/Slides
Blanchard, Olivier. "The State of Macro." *Annual Review of Economics*, 2009, 1, pp. 209-228.
Quah, Danny (1997), Empirics for Growth and Distribution: Stratification, Polarization and Convergence Clubs, *Journal of Economic Growth* vol. 2, pp. 27-60.
Jones, Charles (1997), On The Evolution of the World Income Distribution, *Journal of Economic Perspectives* vol. 11, pp. 19-36.

II. Growth Model

- A. Growth Models: Solow Growth Model and implications
Lecture Notes/Slides
*Romer, Advanced Macroeconomics, ch.1.1-1.4, 1.5, 1.6-1.7, 4.2, 4.6
Jones, Introduction to Economic Growth, ch.1-3.
Hall, Robert and Charles Jones (1999), "Why Do Some Countries Produce So Much More Output per Worker than Others?", *Quarterly Journal of Economics*. 114, 83-116.
*Mankiw, Gregory, David Romer and David N. Weil (1992) "A Contribution to the Empirics of Economic Growth", *Quarterly Journal of Economics* 107, 407-437.
- B. Ramsey-Cass-Koopman, Overlapping Generations Model
Lecture Notes/Slides
*Romer, 2.1-2.5, 2.8-2.12
*Barro, R.J (1974), "Are Government Bonds Net Wealth?" *Journal of Political Economy* 82, 1095-1117.
*Diamond, P. (1965), "National Debt in a Neoclassical Growth Model," *American Economic Review* 55, 1126-1150.
Blanchard, O. (1985), "Debt, Deficits and Finite Horizons," *Journal of Political Economy* 93, 223-247.
- C. Endogeneous Growth
Lecture Notes/Slides
*Romer, 3.1, 3.2
*Romer, Paul M. "The Origins of Endogenous Growth." *Journal of Economic Perspectives*, Winter 1994, 8(1), pp. 3-22.
*Lucas, R.E. "Why Doesn't Capital Flow from Rich to Poor Countries?" *AER*, P&P 1990, Vol.80, pp.92-6.

Robert E. Hall and Charles I. Jones, "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, February 1999, pp. 83-116
Caselli, Francesco "The Word Technology Frontier" (2004),
<http://personal.lse.ac.uk/casellif/papers/wtf1.pdf>

III. Optimizing Models

A. The Neoclassical Growth Model

Lecture Notes/Slides

*Romer 4.5 (pp 169-178)

Barro, R.J., and X. Sala-i-Martin (1995), *Economic Growth*, chapters 2 and 3.

Blanchard, O., and S. Fischer (1989), *Lectures on Macroeconomics*, chapter 3

B. Real Business Cycle Models

Lecture Notes/Slides

*Romer, 5.1, 5.2, 5.8, 5.9 (ignore pp 221-222)

*Kydland, F., and Prescott, E. C. (1982), "Time to Build and Aggregate Fluctuations," *Econometrica* 50, 1345-1370.

Lucas, R.E. Jr. (1975), "An Equilibrium Model of the Business Cycle," *Journal of Political Economy* 81, 1113-1144.

*Mankiw, Gregory (1989), "Real Business Cycles: A New Keynesian Perspective", *Journal of Economic Perspectives* 3, 79-90.

Plosser, Charles (1989), "Understanding Real Business Cycles", *Journal of Economic Perspectives* 3, 57-79.

McCallum, Ben T. (1989), "Real Business Cycle Models" in Barro, R.J. (ed.) *Modern Business Cycle Theory*, Harvard University Press.

Cooley, Thomas (ed.) (1995), *Frontiers of Modern Business Cycle Research*, Princeton University Press, esp. chs. by Cooley & Prescott; and Kydland.

IV. Consumption

Lecture Notes/Slides

*Romer, 8.1-8.4, 8.6

*Hall, Robert E. "Stochastic Implications of the Life-Cycle Permanent Income Hypothesis: Theory and Evidence." *Journal of Political Economy*, December 1978, 86(6), pp. 971-987.

V. Asset Pricing

Lecture Notes/Slides

*Cochrane, John H. "New Facts in Finance", NBER working paper no. 7169, 1999.

VI. Policy Applications: The Great Depression, The Great Recession, etc.

Lecture Notes/Slides

Romer, 11.1, pp. 523-527, pp.541-548, 11.9

Romer 12.10

*Brunnermeier, M.K., 2009. Deciphering the Liquidity and Credit Crunch 2007-2008. *The Journal of Economic Perspectives*, 23(1), pp.77–100.

*Hall, R.E., 2010. Why Does the Economy Fall to Pieces after a Financial Crisis? *The Journal of Economic Perspectives*, 24(4), pp.3–20.

Guajardo, Jaime; Daniel Leigh, and Andrea Pescatori (2011),

“Expansionary Austerity: New International Evidence,” IMF Working Paper11/158.

Available at <http://www.imf.org/external/pubs/ft/wp/2011/wp11158.pdf>

Romer, Christina (2011), “What Do We Know about the Effects of Fiscal Policy? Separating Evidence from Ideology,” Lecture at Hamilton College.

Available at <http://elsa.berkeley.edu/~cromer/Written Version of Effects of Fiscal Policy.pdf>

Note: NO CLASS ON January 18 (Martin Luther King’s Birthday) and February 15, 2016 (President’s Day) as well during Spring Recess (March 13-20, 2016).

In class review on February 17th and April 4th, 2016 before Mid Term I and II, respectively and on April 27th, 2016 before the Final Exam.