

# Macroeconomic Theory, Econ 102

François Geerolf  
UCLA

**Lectures:** Mondays and Wednesdays, 2-3:15pm, Dodd Hall Room 147.

**Office hours:** Mondays and Wednesdays, 3:15-4:15pm. (Bunche 8389)

**Website:** <https://moodle2.sscnet.ucla.edu/course/view/18S-ECON102-1>.

**Prerequisites:** Econ 101.

**Textbook:** Olivier Blanchard's *Macroeconomics*, 7th Edition, without MyLab <http://www.mypersonstore.com/bookstore/macroeconomics-9780133780581>:

- ISBN (Ebook): 978-0-13-383799-5.
- ISBN (Print): 978-0-13-378058-1.
- ISBN (Print, Student Value Edition): 978-0-13-383801-5.

## Graduate Student Instructors:

Sections 1B-1L. María Alejandra Amado Garfias. [mariale.amado@gmail.com](mailto:mariale.amado@gmail.com)

Sections 1I-1O. Paula Beltran Saavedra. [pabeltran90@gmail.com](mailto:pabeltran90@gmail.com)

Sections 1F-1K. Huifeng Chang. [huifengchangpku@gmail.com](mailto:huifengchangpku@gmail.com)

Sections 1E-1H. Conor Foley. [conor.teaches.econ@gmail.com](mailto:conor.teaches.econ@gmail.com)

Sections 1M-1P. Benjamin Freyd. [benjamin.freyd@gmail.com](mailto:benjamin.freyd@gmail.com)

Sections 1A-1C. Yunfan Gu. [yunfangu@ucla.edu](mailto:yunfangu@ucla.edu)

Sections 1D-1J. Kun Hu. [rickhukun@ucla.edu](mailto:rickhukun@ucla.edu)

Sections 1G-1N. Ivan Lavrov. [ilavrov113@gmail.com](mailto:ilavrov113@gmail.com)

**Course description.** In this course we will examine the forces that determine economic activity in the short-run, the medium run and the long run. Particular emphasis will be placed on the most recent recession associated with the 2007-2009 global financial crisis, to stabilization policies, and the determinants of unemployment and inflation. I will emphasize issues related to open economy macroeconomics, and those which are relevant to policymaking – such as fiscal policy and monetary policy. The class will

mostly be concept-based, and will involve some empirical analysis. I will emphasize the importance of macroeconomic statistics, and how to study and interpret them. I will also stress how different macroeconomic theories can be put to scientific testing, and how to choose between competing schools of thought through rigorous statistical testing.


**Course Objectives.** My objective is that, by the end of the course, you will be able to critically read articles on economic issues in publications such as *The Economist*, *The Wall Street Journal*, or the *New York Times*. I will from time to time post some of these articles on the website for the course. Macroeconomics is everywhere in the news, and I hope to be able to go through the tools you need to understand it better. I will be as transparent as possible on which questions have reached broad consensus among macroeconomists (incentives matter, capital accumulation increases GDP, etc.), and which have not (is public debt too high in advanced economies? do Americans save enough? etc.). However, I will in these cases give the arguments for and against each side of the debate, and I hope that you will be able to make a more informed opinion. I will do my best so that my set of readings reflects in the least partial possible way the terms of the debate.

**Prerequisites.** A strict prerequisite for the class is that you have taken Econ 101. If you do not meet this prerequisite you may be best advised to take this course in another term. You must also be familiar with some elementary mathematics. For example, you should know what a logarithm is, and be familiar with the mathematical concepts of functions and derivatives. Olivier Blanchard's *Macroeconomics*, 7th Edition has a mathematical appendix page A-7 (Appendix 2 - A math refresher). We will review these tools during TA review sessions, but it is best if you start studying them as soon as possible.

**Need Help?** If you have any question about the material covered during the course, you should consider the following options in order:

1. First, you should never refrain from asking questions during class.
2. Second, you may ask questions during recitation sections. The smaller group should allow you to ask questions more freely, especially if you tend to be shy. The Teaching Assistants are all passionate graduate students, writing a PhD thesis on Macroeconomics or other related subjects, so they will be very happy to help you.
3. Third, TAs will hold their office hours. The time of their office hours is available on the Moodle platform.
4. Fourth, you should **feel free to ask questions on the discussion board (not by email)**. We will never respond to questions about contents by email (especially those starting with "is X, Y, Z, test material"), because doing so would be unfair to the rest of the class. In contrast, we commit to respond to all questions on the Moodle Website within 24 hours (either me or the TAs will). Beware ! You should start studying for the midterm exam earlier than April 29, 2018 – we will stop answering questions at 6pm the day before each exam (either the midterm on April 30, or the final on June 14).

5. Finally, I will hold regular office hours on Monday and Wednesday afternoons, after the class, in my office 8389, from 3:15 to 4:15pm. However, there is sometimes a long line of students during my office hours.

**Readings.** There is one textbook for this course, copies of which have been ordered at the UCLA Bookstore: Olivier Blanchard's *Macroeconomics*, 7th Edition (without MyLab). The chapters from the class will more or less follow the textbook. Readings are indicated at the end of this syllabus, with a bibliography. Only the material indicated with a  marker is compulsory reading, and therefore, potentially examinable.

The Blanchard textbook is also available as an eBook at a lower price; however eBooks cannot be sold back at the end of the quarter. If you choose to use an older edition you are responsible for any differences in the material: having an older edition of the book will not constitute an acceptable excuse for missed homework, or poor performance in the exam. You may also want to purchase the MyLab that comes with the textbook, in order to practice for additional questions or exercises. However, this is not a requirement, and I will assign exercises from the book.

**Exams.** Everything that I say during the class, that is covered during recitation sections, is potentially examinable. Therefore, it is absolutely necessary that you attend all lectures! It is encouraged to take notes during the class. As for practicalities: sufficient space will be provided on the sheets to answer. No notes, no books, no smartphones will be allowed during the exam. You need to bring a **Scantron 882-E** for multiple choice questions. The Economics department made an agreement with the bookstore that the only allowable calculator is **Canon LS-100TS**. It can be bought at the ASUCLA bookstore. It is a very basic calculator and does not have any sophisticated function. This calculator will be useful for you in your other economics classes, for example for Econ 41. You **must** bring your UCLA ID in order to take the exam.

**Final Grade.** Your final grade has two components: one midterm exam, and a comprehensive final exam. Your final grade will be given by whichever of these two options gives you the best grade: (Midterm (30%) + Final Exam (70%)) or (Final Exam (100%)). In any case, there will be **no makeup exams**. If a midterm exam is missed due to a **documented** serious illness or emergency, the final exam will be worth 100 % of your grade. Note that attending the midterm is like an "option value": you are necessarily better off attending the midterm, no matter what your grade is.

**Grade Distribution.** As an indication, I will be using roughly the official UCLA grade distribution for core classes (Econ 1, 2, 11, 41, 101, 102, 103): (A+/A/A-: 25%), (B+/B/B-: 35%), (C+/C/C-: 25%), (Ds/Fs: 15%).

**Regrade Policy.** Students who wish to have their midterm or their final examinations regraded should submit a request in written form to their assigned Graduate Student Instructor, clearly explaining why they think they deserve a regrade. If a student requests a regrade, the whole exam will be regraded. Therefore, the grade can increase or decrease.

**Other.** For more details about policies regarding grading, exams and other matters please refer to the following link: <https://www.econ.ucla.edu/undergraduate/>. I will adhere to the guidelines specified in this webpage. If you wish to request an accommodation due to a suspected or documented disability, please contact the Center for Accessible Education as soon as possible at A255 Murphy Hall, (310) 825-1501, (310) 206-6083 (telephone device for the deaf). Website: <http://www.cae.ucla.edu/>

**Preliminary Course Time Table**  
(Tentative, subject to change)

Date	Topics / Review sessions	Readings
	<b>Math refresher / Intro to Econometrics</b>	App 2-3
April 2, 2018	1 - What is Macroeconomics?	Ch 1-2
April 4, 2018	2 - The Goods Market	Ch 3
	<b>An introduction to the NIPA</b>	App 1
April 9, 2018	3 - Financial Markets	Ch 4
April 11, 2018	4 - Goods and Financial Markets: the IS-LM Model	Ch 5
	<b>Multipliers</b>	
April 16, 2018	5 - Financial Markets, Aggregate Demand and the Crisis	Ch 6
April 18, 2018	6 - The Labor Market	Ch 7
	<b>The Phillips Curve</b>	
April 23, 2018	7 - The Phillips Curve and Inflation	Ch 8
April 25, 2018	8 - The IS-LM PC Model	Ch 9
	<b>Convergence in the data</b>	
April 30, 2018	<b>Midterm Exam: The Short &amp; Medium Run</b>	
May 2, 2018	9 - The Facts of Growth	Ch 10
	<b>Midterm 1 Review Session</b>	
May 7, 2018	10 - Saving, Capital Accumulation and Output	Ch 11
May 9, 2018	11 - Technological Progress	Ch 12-13
	<b>Technological progress</b>	
May 14, 2018	12 - Expectations	Ch 14-15-16
May 16, 2018	13 - Openness in Goods and Financial Markets	Ch 17
	<b>Exchange rates around the world</b>	
May 21, 2018	14 - The Goods Market in an Open Economy	Ch 18
May 23, 2018	15 - Output, the Interest Rate, and the Exchange Rate	Ch 19
	<b>Trade deficits and competitiveness</b>	
May 28, 2018	Memorial Day	
May 30, 2018	16 - Exchange Rate Regimes	Ch 20
	<b>Exchange rate crises</b>	
June 4, 2018	17 - Fiscal Policy	Ch 21-22
June 6, 2018	18 - Monetary Policy: A Summing up	Ch 23
June 14, 2018	<b>Comprehensive Final Exam (3pm - 6pm)</b>	

## Bibliography

(Very preliminary, updated throughout the quarter)

This bibliography is very preliminary and will be updated throughout the quarter. Only the material indicated with the sign 📖 is compulsory reading, and therefore, potentially examinable.

### 1 What is Macroeconomics?

📖 Lecture Link

📖 Chapter 1-2, *Macroeconomics*, 7th Edition, Olivier Blanchard

The Economics of Well Being, *Harvard Business Review*. [Link](#)

Abraham, Katharine G. “Distinguished Lecture on Economics in Government-What We Don’t Know Could Hurt Us: Some Reflections on the Measurement of Economic Activity.” *Journal of Economic Perspectives* 19, no. 3 (September 2005): 3–18. [Link](#)

Guerrieri, V., and H. Uhlig. “Chapter 17 - Housing and Credit Markets: Booms and Busts.” In *Handbook of Macroeconomics*, edited by John B. Taylor and Harald Uhlig, 2:1427–96. Elsevier, 2016. [Link](#)

G.D.P. R.I.P., *The New York Times*, August 9, 2009. [Link](#)

Keeping up with the Karumes, *The Economist*, October 29th, 2015. [Link](#)

### 2 The Goods Market

📖 Lecture Link

📖 Chapter 3, *Macroeconomics*, 7th Edition, Olivier Blanchard

Keynes, John Maynard. The Economic Consequences of the Peace, 1919. [Link](#)

Keynes, John Maynard. The General Theory of Employment, Interest, and Money, 1936. [Link](#)

In Japan, the Government Gets Paid to Borrow Money, *Wall Street Journal*, March 1, 2016. [Link](#)

What Is Keynesian Economics?, *Finance & Development*, September 2014, Sarwat Jahan, Ahmed Saber Mahmud, and Chris Papageorgiou. [Link](#)

### 3 Financial Markets

📖 Chapter 4, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 4 Goods and Financial Markets: the IS-LM Model

☞ Chapter 5, *Macroeconomics*, 7th Edition, Olivier Blanchard

John Maynard Keynes Sing-Along. [Link](#)

Keynes – Useful Economics for the World Economy, Peter Temin and David Vines, MIT Press, 2014. [Link](#)

## 5 Financial Markets, Aggregate Demand and the Crisis

☞ Chapter 6, *Macroeconomics*, 7th Edition, Olivier Blanchard

The Financial Crisis Inquiry Report, January 2011. [Link](#)

The Big Short: Inside the Doomsday Machine, Michael Lewis, W. W. Norton & Company, March 15, 2010. [Link](#)

The Big Short, Adam McKay, 2015. [Link](#) Excerpts: [Link 1](#), [Link 2](#). Michael Burry’s UCLA Economics Commencement 2012. [Link](#)

## 6 The Labor Market

☞ Chapter 7, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 7 The Phillips Curve and Inflation

☞ Chapter 8, *Macroeconomics*, 7th Edition, Olivier Blanchard

What We Know About the 92 Million Americans Who Aren’t in the Labor Force, *Wall Street Journal*, Oct 21, 2015. [Link](#)

## 8 The IS-LM PC Model

☞ Chapter 9, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 9 The Facts of Growth

☞ Chapter 10, *Macroeconomics*, 7th Edition, Olivier Blanchard

Foreign Investment in Africa, *The Economist*, January 23, 2015. [Link](#)

Henderson, J. Vernon, Adam Storeygard, and David N. Weil. “Measuring Economic Growth from Outer Space.” *American Economic Review* 102, no. 2 (April 2012): 994–1028. [Link](#)

## 10 Saving, Capital Accumulation and Output

☞ Chapter 11, *Macroeconomics*, 7th Edition, Olivier Blanchard

Tu'ppence, Mary Poppins, 1964. [Link](#)

Capital/ Labor Substitution in Practice, *Wall Street Journal*, October 6, 2013. [Link](#)

Garon, Sheldon. *Beyond Our Means: Why America Spends While the World Saves*. Princeton University Press, 2012. [Link](#)

## 11 Technological Progress

☞ Chapter 12-13, *Macroeconomics*, 7th Edition, Olivier Blanchard

A question of utility, *The Economist*, August 8 2015. [Link](#)

Time to fix patents, *The Economist*, August 8 2015. [Link](#)

## 12 Expectations

☞ Chapter 14-15-16, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 13 Openness in Goods and Financial Markets

☞ Chapter 17, *Macroeconomics*, 7th Edition, Olivier Blanchard

Paul Krugman, Marc Melitz, Maurice Obstfeld, Prentice Hall, *International Economics, Theory and Policy*, 11th edition. [Link](#)

## 14 The Goods Market in an Open Economy

☞ Chapter 18, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 15 Output, the Interest Rate, and the Exchange Rate

☞ Chapter 19, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 16 Exchange Rate Regimes

☞ Chapter 20, *Macroeconomics*, 7th Edition, Olivier Blanchard

## 17 Fiscal Policy

☞ Chapter 21-22, *Macroeconomics*, 7th Edition, Olivier Blanchard

Why Are US Interest Rates High and Rising?, Martin Feldstein [Link](#)

Government Spending Is No Free Lunch, Robert J. Barro, *Wall Street Journal*, January 22, 2009. [Link](#)

The Fiscal Stimulus, Flawed but Valuable, Christina D. Romer, *New York Times*, October 20, 2012. [Link](#)

Ignored for Years, a Radical Economic Theory Is Gaining Converts, *Bloomberg*, March 13, 2016. [Link](#)

## 18 Monetary Policy: A Summing up

☞ Chapter 23, *Macroeconomics*, 7th Edition, Olivier Blanchard