

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.mypearsonstore.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

Sections 1I-1O. Paula Beltran Saavedra. pabeltran90@gmail.com

Sections 1F-1K. Huifeng Chang. huifengchangpku@gmail.com

Sections 1E-1H. Conor Foley. conor.teaches.econ@gmail.com

Sections 1M-1P. Benjamin Freyd. benjamin.freyd@gmail.com

Sections 1A-1C. Yunfan Gu. yunfangu@ucla.edu

Sections 1D-1J. Kun Hu. rickhukun@ucla.edu

Sections 1G-1N. Ivan Lavrov. 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 read, and critically assess writings from *The Economist*, *The Wall Street Journal*, or the *New York Times*. The bibliography below suggests some readings in relation with the theme of the class. 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 try to 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, in all these cases I shall give you some arguments for and against each side of the debate, hoping that you will be able to make a more informed opinion.

Prerequisites. A strict prerequisite for the class is that you have taken Econ 101. If you do not meet this prerequisite, you are advised to take this course during another term. You should also be familiar with some elementary mathematics. For example, you need to know what a logarithm is. Olivier Blanchard's *Macroeconomics*, 7th Edition has a mathematical appendix page A-7 (Appendix 2 - A math refresher). We shall review these tools during the beginning-of-quarter 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. Our 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.

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.

I strongly suggest that you practice from the end of chapter Problems in the Blanchard textbook, in order to prepare for the exam. Some of them will be covered during recitation sections. In the bibliography below, ☆☆☆, ☆☆, ☆ denote end of chapter Problems which are recommended, by decreasing order of importance.

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.

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, no calculators, will be allowed during the exam. You need to bring a **Scantron 882-E** for multiple choice questions. You **must** bring your UCLA ID in order to take the exam. Without a UCLA ID, you will not be allowed 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 Economics Department 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
	1) Math refresher / Intro to Econometrics	App 2-3
April 2, 2018	1 - What is Macroeconomics?	Ch 1-2
April 4, 2018	2 - The Goods Market	Ch 3
	2) An introduction to the NIPA	App 1
April 9, 2018	3 - Financial Markets	Ch 4
April 11, 2018	4 - Goods and Financial Markets: the IS-LM Model	Ch 5
	3) Multipliers	
April 16, 2018	5 - Financial Markets, Aggregate Demand and the Crisis	Ch 6
April 18, 2018	6 - The Labor Market	Ch 7
	4) Midterm Review Session	
April 23, 2018	7 - The Phillips Curve, Unemployment, and Inflation	Ch 8
April 25, 2018	8 - The IS-LM PC Model	Ch 9
	5) The Medium Run	
April 30, 2018	Midterm Exam: The Short & Medium Run	
May 2, 2018	9 - The Facts of Growth	Ch 10
	6) The Facts of Growth	
May 7, 2018	10 - Saving, Capital Accumulation and Output	Ch 11
May 9, 2018	11 - Technological Progress	Ch 12-13
	7) Solow Model	
May 14, 2018	12 - Expectations	Ch 14-15-16
May 16, 2018	13 - Openness in Goods and Financial Markets	Ch 17
	8) Openness 1	
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
	9) Openness 2	
May 28, 2018	Memorial Day	
May 30, 2018	16 - Exchange Rate Regimes	Ch 20
	10) Final Review Session	
June 4, 2018	17 - Fiscal Policy	Ch 21-22
June 6, 2018	18 - Monetary Policy: A Summing up	Ch 23
June 14, 2018	Comprehensive Final Exam (3pm - 6pm)	

Bibliography

(updated throughout the quarter)

This bibliography is preliminary and will be updated throughout the quarter. Only the material indicated with the sign 📖 is compulsory reading, and therefore, potentially examinable. ☆☆☆, ☆☆, ☆ denote end of chapter Problems in the Blanchard textbook which are more particularly recommended, by order of importance, to practice for the midterm and the final exam. Some of them will be covered during the recitation sections. 📖 denote references which are harder to read, but allow you to go deeper. Only 📖 and ☆☆☆, ☆☆, ☆ references are examinable.

1 What is Macroeconomics?

📖 Lecture 1. [Link](#)

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

☆☆ Problems 4, 5, and 6, Chapter 2, page 39-40, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆ Problem 3, Chapter 2, page 39, *Macroeconomics*, 7th Edition, Olivier Blanchard.

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

📖 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](#)

2 The Goods Market

📖 Lecture 2. [Link](#)

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

☆☆☆ Problems 5, 6, 7, Chapter 3, page 65, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆☆ Problems 4, 8, 9, Chapter 3, page 65-66, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆ Problem 10, Chapter 3, page 66, *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

📺 Lecture 3. [Link](#)

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

Emptying the tills, *The Economist*, August 11th, 2016. [Link](#)

☆ Problem 7, Chapter 4, page 84, *Macroeconomics*, 7th Edition, Olivier Blanchard.

📎 Minutes of the Federal Open Market Committee, Board of Governors of the Federal Reserve System, January 30-31, 2018. [Link](#)

4 Goods and Financial Markets: the IS-LM Model

📺 Lecture 4. [Link](#)

📖 Chapter 5, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆☆☆ Problems 2, 3, Chapter 5, page 107, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆☆ Problem 11, Chapter 5, page 109, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆ Problem 5, Chapter 5, page 107, *Macroeconomics*, 7th Edition, Olivier Blanchard.

The Paradox of Thrift – for real, Paul Krugman, *The New York Times*, July 7, 2009. [Link](#)

“Fear the Boom and Bust”: Keynes vs. Hayek Rap Battle. [Link](#)

📎 Hicks, J. R. “Mr. Keynes and the ‘Classics’; A Suggested Interpretation.” *Econometrica* 5, no. 2 (1937): 147–59. [Link](#)

📎 Christiano, Lawrence J., Martin Eichenbaum, and Charles Evans. “The Effects of Monetary Policy Shocks: Evidence from the Flow of Funds.” *The Review of Economics and Statistics* 78, no. 1 (1996): 16–34. [Link](#)

📎 Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans. “Chapter 2 Monetary Policy Shocks: What Have We Learned and to What End?” In *Handbook of Macroeconomics*, 1:65–148. Elsevier, 1999. [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

📺 Lecture 5. [Link](#)

📺 Chapter 6, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆☆ Problem 7, Chapter 6, page 132, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆ Problem 8, Chapter 6, page 132, *Macroeconomics*, 7th Edition, Olivier Blanchard.

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](#)

I Saw the Crisis Coming. Why Didn't the Fed?, Michael J. Burry, *The New York Times*, April 3, 2010. [Link](#)

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

6 The Labor Market

📺 Lecture 6. [Link](#)

📺 Chapter 7, *Macroeconomics*, 7th Edition, Olivier Blanchard.

📄 Blanchard Olivier, and Wolfers Justin. "The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence." *The Economic Journal* 110, no. 462 (December 25, 2001): 1–33. [Link](#)

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

7 The Phillips Curve, Unemployment, and Inflation

📺 Lecture 7. [Link](#)

📺 Chapter 8, *Macroeconomics*, 7th Edition, Olivier Blanchard.

📄 Phillips, A. W. "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957." *Economica* 25, no. 100 (November 1, 1958): 283–99. [Link](#)

📄 Samuelson, Paul A., and Robert M. Solow. "Analytical Aspects of Anti-Inflation Policy." *The American Economic Review* 50, no. 2 (1960): 177–94. [Link](#)

📄 Friedman, Milton. "The Role of Monetary Policy." *The American Economic Review* 58, no. 1 (1968): 1–17. [Link](#)

📄 Lucas, Robert E., and Thomas J. Sargent. "After Keynesian Macroeconomics." In *Federal Reserve Bank of Boston*, 49–72, 1978. [Link](#)

📖 Blanchard, Olivier, and Justin Wolfers. “The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence.” *The Economic Journal* 110, no. 462 (December 25, 2001): 1–33. [Link](#)

Phillips Curve Doesn’t Help Forecast Inflation, Fed Study Finds, *Bloomberg Markets*, August 24, 2017. [Link](#)

The Phillips curve may be broken for good, *The Economist*, November 1, 2017. [Link](#)

The Phillips hydraulic machine. [Link](#)

8 The IS-LM PC Model

📖 Lecture 8. [Link](#)

📖 Chapter 9, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆☆ Problems 3, 4, Chapter 9, pages 194–195, *Macroeconomics*, 7th Edition, Olivier Blanchard.

☆ Problems 7, 9, Chapter 9, pages 195–196, *Macroeconomics*, 7th Edition, Olivier Blanchard.
Chapter 24, *Macroeconomics*, 7th Edition, Olivier Blanchard.

How to Teach Intermediate Macroeconomics after the Crisis?, Olivier Blanchard, June 2, 2016. [Link](#)

📖 Krugman, Paul. “Good Enough for Government Work? Macroeconomics since the Crisis.” *Oxford Review of Economic Policy* 34, no. 1–2 (January 5, 2018): 156–68. [Link](#)

📖 Blanchard, Olivier, Eugenio Cerutti, and Lawrence Summers. “Inflation and Activity – Two Explorations and Their Monetary Policy Implications.” Working Paper. National Bureau of Economic Research, November 2015. [Link](#)

Larry Summers: Advanced economies are so sick we need a new way to think about them, *The Washington Post*, November 3, 2015. [Link](#)

9 The Facts of Growth

📖 Lecture 9. [Link](#)

📖 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](#)

Economists understand little about the causes of growth, *The Economist*, April 12, 2018. [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.

Turkish lira strikes historic low after more than 1% drop, *Financial Times*, April 5, 2018. [Link](#)

US urges IMF to reduce trade imbalances, *Financial Times*, April 21, 2018. [Link](#)

Mnuchin Urges IMF to ‘Step Up to the Plate’ in Fair Trade Debate, Bloomberg, April 20, 2018. [Link](#)

16 Exchange Rate Regimes

📖 Chapter 20, *Macroeconomics*, 7th Edition, Olivier Blanchard.

📎 Temin, Peter. “Transmission of the Great Depression.” *Journal of Economic Perspectives* 7, no. 2 (June 1993): 87–102. [Link](#)

Standard solution, *The Economist*, September 23rd 2010. [Link](#)

17 Fiscal Policy

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

There is no significant budget deficit, Olivier Blanchard, Jeffrey Sachs, *New York Times*, March 6, 1981. [Link](#)

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](#)

Blanchard, Olivier; Cottarelli, Carlo (24 June 2010). “Ten Commandments for Fiscal Adjustment in Advanced Economies”. [Link](#)

18 Monetary Policy: A Summing up

📖 Chapter 23, *Macroeconomics*, 7th Edition, Olivier Blanchard.