



GEORGETOWN UNIVERSITY  
McCourt School of Public Policy

## **Macroeconomics**

(PPOL-649)

Wednesdays: 6:30 – 9:00 pm  
Healy 104

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### **Course description**

At a time when mainstream Macroeconomics is in a state of flux having been seriously challenged by its failure to predict the 2008 financial crisis, this course invites you to shift away your attention from ready-made answers and to focus instead on deepening your understanding of the questions themselves and on thinking anew and by yourselves about those enduring fundamental questions of macroeconomics, namely what determines the overall level of activity in an economy, is it demand in the short run and supply in the long run and are price adjustments the bridge between the two; is an economy always able to create enough jobs to employ all those who are looking for one; is the level of the interest rate set in the money market in the short run, and anchored in some notion of productivity of capital in the long run; is the dichotomy between the short run and the long run a useful conceptual framework, why do economies experience booms and busts, inflation and deflation; are nominal variables ever divorced from their real counterparts; what specific role does the nexus time, uncertainty, and money play in today's modern monetary economies; and is there anything governments can do to improve the performance of the economy, if a social consensus is reached about the performance criteria themselves.

To delve into these questions, we will read **one primary source:** Keynes's General theory of Employment, Interest, and Money, the founding text of Macroeconomics in which Keynes was the first one to explore the complexity of these questions in a systematic, comprehensive way.

**Required Text:** John Maynard Keynes, The General Theory of Employment Interest and Money (please buy a hard copy and bring it to every class)

Supplementary text: Hayman Minsky, John Maynard Keynes

### **Course methodology and goals**

All the benefit you will accrue from taking this class will come from three sources:

- The first source is the effort you will put in **reading** the General Theory. Not any kind of reading but the kind Mortimer Adler talked about when he said: “taking a book into your study and [working] on it. With nothing but the power of your own mind, you operate on the symbols before you in such a way that you gradually lift yourself from a state of understanding less to one of understanding more. Such elevation, accomplished by the mind working on a book, is **reading**, the kind of reading that a book which challenges your understanding deserves.”
- The second source is the group discussion during which the individual labor to understand the text turns into a collective effort to push further the work of understanding and through a cross-fertilization of ideas and thoughts deepens your appreciation of the complexity of the issues and hopefully makes you gain new insights. My role as a tutor will be limited to asking an opening question and to guiding the discussion, if and when it is needed.
- The third source is the work you will put in writing the final essay. Once you would have read the General Theory from start to finish—zooming in on myriad pointed questions—you need to zoom out to look at the big picture and try to distill the kernel of “truth” in it, and hopefully also start to talk back to the book. (see below).

All three activities are the surest way to build confidence in your own ability to think about the complex issues of Macroeconomics (or any other subject for that matter) and make you gain true insights about the nature and the causes of the problems of our modern monetary economies. It will give you the intellectual capacity to evaluate the public discourse on proposed solutions and, hopefully, to contribute to the design of appropriate ones. As a class, we would have succeeded if we manage to create a safe space in which everyone feels encouraged and stimulated to think. Sometimes, we think best by listening to others rather than by talking; other times talking about one’s ideas and sharing them with others becomes a catalyst for further thoughts.

## **Expectations**

I expect you to write a 1-2 page note on the reading assigned each week and to submit it before the start of class. This note should be your free-flowing reflection on what you understood about the questions Keynes asks and the arguments he presents in favor of the proposed claims. You are welcome to quote extensively from the text as long as you say it again in your own words in support of your chain of thought. The last half hour of each session will be devoted to re-writing your note in light of the discussion and of specific questions I will pose. You are encouraged to bring your laptops to work/revise the draft note submitted at the beginning of the session.

I also expect you to write a 3000-4000-word final essay where you articulate in a clear manner the conversation you have had with Keynes throughout the semester. As it is a report on a conversation it should be a fluid, free flowing exposition/exploration of the main questions raised, their significance, the logical links between them, how you made sense of them, the proposed answers and whether you found them reasonable at times, but perhaps lacking at other times, and possibly areas that call for further investigation. You may choose to focus on one question in particular rather than on the whole theory if there is one question that picked your interest more than any other.

On the day of the final exam, all students should be prepared to make an oral presentation of their essays, and randomly selected students will have a chance to do so and will benefit from the feedback from the rest of the group.

## **Class evaluation:**

Notes submitted before the beginning of each class: 20 percent

Notes submitted at the end of each class: 20 percent

Final essay: 60 percent

### **Attendance and late assignment:**

The integrity of this course of study requires your participation in every class session. This involves reading the assigned chapters, writing a note about the reading, attending class, and revising your note at the end of the session. If, in exceptional circumstances, you cannot make it to a session please email me in advance and make sure to submit your reading note before the start of class.

### **Canvas Site**

A Canvas course site is set up for this course. Each student is expected to check the site throughout the semester as Canvas will be the primary venue for outside classroom communications between the instructors and the students. Reading for each class may be adjusted to reflect current progress and additional optional readings may be added. Students can access the course site at <https://campus.georgetown.edu>. Support for Canvas is available at xx. Relevant Georgetown policies and services are posted on the Canvas site for this class.

### **Schedule**

(items marked with an \* are required reading/tasks)

#### **Class 1: Wed, Jan 18**

The fundamental difference between a sound, strong argument and an unsupported assertion

Main macroeconomic variables and identities and how they point to the central questions

\*Watch Boom Bust Boom (available on Netflix)

\*Keynes, Preface to the General theory

Assignment: 1-2 page note on what you took away from watching: Boom bust boom.

Wolfgang Munchau, "Reform the economic system now or the populist will do it." FT, December 19, 2016

[Reform the economic system now or the populists will do it](#)

Paul Romer, "The Trouble with Macroeconomics," September 2016 <https://paulromer.net/wp-content/uploads/2016/09/WP-Trouble.pdf>

#### **Class 2: Wed, Jan 25**

Classical Economics theory of the determination of employment, output, savings, investment and other real variables and the neutrality of money

\*Chapters 1 & 2 of the General Theory (20 pages)

Assignment: 1-2 page note on Chapters 1 & 2

#### **Class 3: Wed, Feb 1**

The theory of effective demand and the role of expectations

\*Chapter 3 and 5 of the General Theory (16 pages)

J. M. Keynes, "The General Theory of Employment," The Quarterly Journal of Economics, Vol. 51, No. 2 (Feb., 1937), pp. 209-223 <http://www.jstor.org/stable/1882087>

Section III only (3-4 pages)

Assignment: 1-2 page note on Chapters 3&5.

#### **Class 4: Wed, Feb 8**

The meaning of Saving and investment

\*Chapter 6 of the General Theory, section II (4 pages)

\*Chapter 7 of the General Theory (11 pages)

Assignment: 1-2 page note on Chapter 6, section II & chapter 7

#### **Class 5: Wed, Feb 15**

The propensity to consume, objective and subjective factors

\*Chapter 8 of the General Theory, skip section IV first few paragraph pages 98-104, resuming reading starting second paragraph on page 104 “the above is, to some extent, a digression.”

\*Chapter 9 of the General Theory (6 pages)

Assignment: 1-2 page note on Chapters 8&9

**Class 6: Wed, Feb 22**

The marginal propensity to consume and the multiplier

\*Chapter 10 of the general theory (18 pages)

Assignment: 1-2 page note on Chapters 10

**Class 7: Wed, March 1**

The marginal efficiency of capital and the state of long-term expectation

\*Chapter 11 of the General Theory (11 pages)

\*Chapter 12 of the General Theory (17 pages)

Assignment: 1-2 page note on Chapters 11&12

**Class 8: Wed, Mar 15**

The classical theory and the general theory of the interest rate

\*Chapter 13 of the General theory (10 pages)

\*Chapter 14 of the general theory (10 pages)

Assignment: 1-2 page note on Chapters 13&14

**Class 9: Wed, Mar 22**

Liquidity preferences

\*Chapter 15 of the general Theory (16 pages)

M. McLeay, A. Radia, R. Thomas, “Money Creation in the modern economy,” Bank of England Quarterly Bulletin 2014 Q1

<http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q1prereleasemoneycreation.pdf>

Assignment: 1-2 page note on Chapter 15

**Class 10: Wed, Mar 29**

The essential properties of interest and money

\*Chapter 17 of the General theory (22 pages)

Assignment: 1-2 page note on Chapter 17

**Class 11: Wed, Apr 5**

The general theory of employment re-stated and alternative theories of the interest rate

\*Chapter 18 of the general theory (10 pages)

\* J. M. Keynes, “Alternative theories of the interest rate,” The Economic Journal, Vol 47, No 186 (June 1937)

<http://www.jstor.org/stable/2225525>

Assignment: 1-2 page note on Chapter 18 and the above article

**Class 12: Wed, Apr 12**

Money wages and Employment

\*Chapter 19 of the General Theory

\*Chapter 20 of the General Theory

Assignment: 1-2 page note on Chapters 19&20

**Class 13: Wed, Apr 19**

The theory of prices

\*Chapter 21 of the General Theory (18 pages)

Assignment: 1-2 page note on Chapter 21

**Class 14: Wed, Apr 26**

\*Chapters 22 & 24 of the General Theory (31 pages)

Assignment: 1-2 page note on Chapters 22&24