

Lecture 1. Introduction to ECON 3123: Macroeconomic Theory I

Reading: Blanchard, Chapter 1.*

*If you find it too difficult, you can skip this chapter. I advise you to come back to this chapter at the end of the semester.

Outline

- Who are the instructors?
- Textbook and References
- Assessment / Exams / Problem Sets
- When you have questions or suggestions...
- What is this course about?

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Who are the instructors?

- Byoungchan Lee (bclee@ust.hk)
 - Wed / Fri 1:30 – 2:50 PM, Zoom ID: 703-129-619
 - Office hours: Wed 10:00 AM – noon, Zoom ID: 826-662-181
- Dominic J. Pegler (ecdjpegler@ust.hk)
 - T1: Mon 6:00 – 6:50 PM, Zoom
 - Office hours: Tue 4:30 – 6:30 PM, Zoom ID: 515-008-9299
 - The first tutorial will be on Feb 24.

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Textbook

- Blanchard, Olivier (2017), *Macroeconomics*, 7th ed, Pearson.
 - Available from the university bookstore.
 - Chapters from the textbook will be assigned as readings.
- Because the 7th edition of this textbook is substantially different from the previous editions, you are strongly advised to have the 7th edition.
- Who is the author? Let's Google his name.

References (not required)

- They are **NOT** required readings.
- Garin, J., R. Lester and E. Sims (2019). *Intermediate Macroeconomics*. ([Link](#))
- Landefeld, J. S., E. P. Seskin, and B. M. Fraumeni (2008). “Taking the Pulse of the Economy: Measuring GDP.” *Journal of Economic Perspectives* 22 (2): 193–216. <https://www.aeaweb.org/articles?id=10.1257/jep.22.2.193>
- Romer, D. H. (2000). “Keynesian Macroeconomics without the LM Curve.” *Journal of Economic Perspectives* 14 (2): 149–69. <https://www.aeaweb.org/articles?id=10.1257/jep.14.2.149>
- Bernanke, S. Ben (2013), “A Century of US Central Banking: Goals, Frameworks, Accountability.” *Journal of Economic Perspectives* 27(4): 3-16. <https://www.aeaweb.org/articles?id=10.1257/jep.27.4.3>
- Krugman, Paul (1994). “The myth of Asia’s miracle.” *Foreign Affairs* 73, November-December: 62-75.

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Assessment Scheme

- | | | |
|-----------------------------|-----|----------------|
| • Problem Sets | 20% | 4 problem sets |
| • Pre-exam Check-up Session | 5% | TBA |
| • Midterm | 35% | April 1 |
| • Final | 40% | TBA |
- We will hold **a pre-exam check-up session** in one of our tutorials before the midterm exam. The purpose of this session is to have a dry-run of the exam and resolve technical issues if there is any. Attending this session and following the instruction is mandatory.

Attendance

- Attendance to lectures or tutorials are not mandatory (except for the pre-exam check-up session).
- ...But strongly recommend.

Do Students Go to Class? Should They?

David Romer

- “Absenteeism is rampant in undergraduate economics courses...”
- “In addition, there is a very strong statistical relationship between absenteeism and performance, and the evidence is consistent with the view that this relationship has an important causal component.”

Exams

- The final exam is cumulative but focuses on the materials discussed after the midterm.
- We will review the materials in the last classes before each exam (Mar 27, May 15).
- If there is an issue that prevents you from taking either the midterm or the final, please contact the instructor **BEFORE** the exams.

Re-grading policy

- A formal, typed re-grading request should be submitted to your TA within 7 days after the exam is returned.
- The TA reserves the right to regrade the entire exam.
- Scores may increase or decrease as a result.
- The TA further reserves the right to reject any request for fewer than 3 points.

Problem Sets

- 4 problem sets
- Includes simple empirical exercises using a computer software.
- If you do not have previous experience, it would be a good chance to learn Excel.
- Submission: Gradescope ([LINK](#)).
 - An invitation will be sent to your HKUST emails.
 - Late submissions will not be accepted.

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When you have questions or suggestions...

- email
 - Please add [Econ 3123] in your title line.
 - May take up to 3 days to respond.
- Office Hours
- Before/After lectures
- Questions asked right before exams and due dates of problem sets may not be answered.

Student Counseling

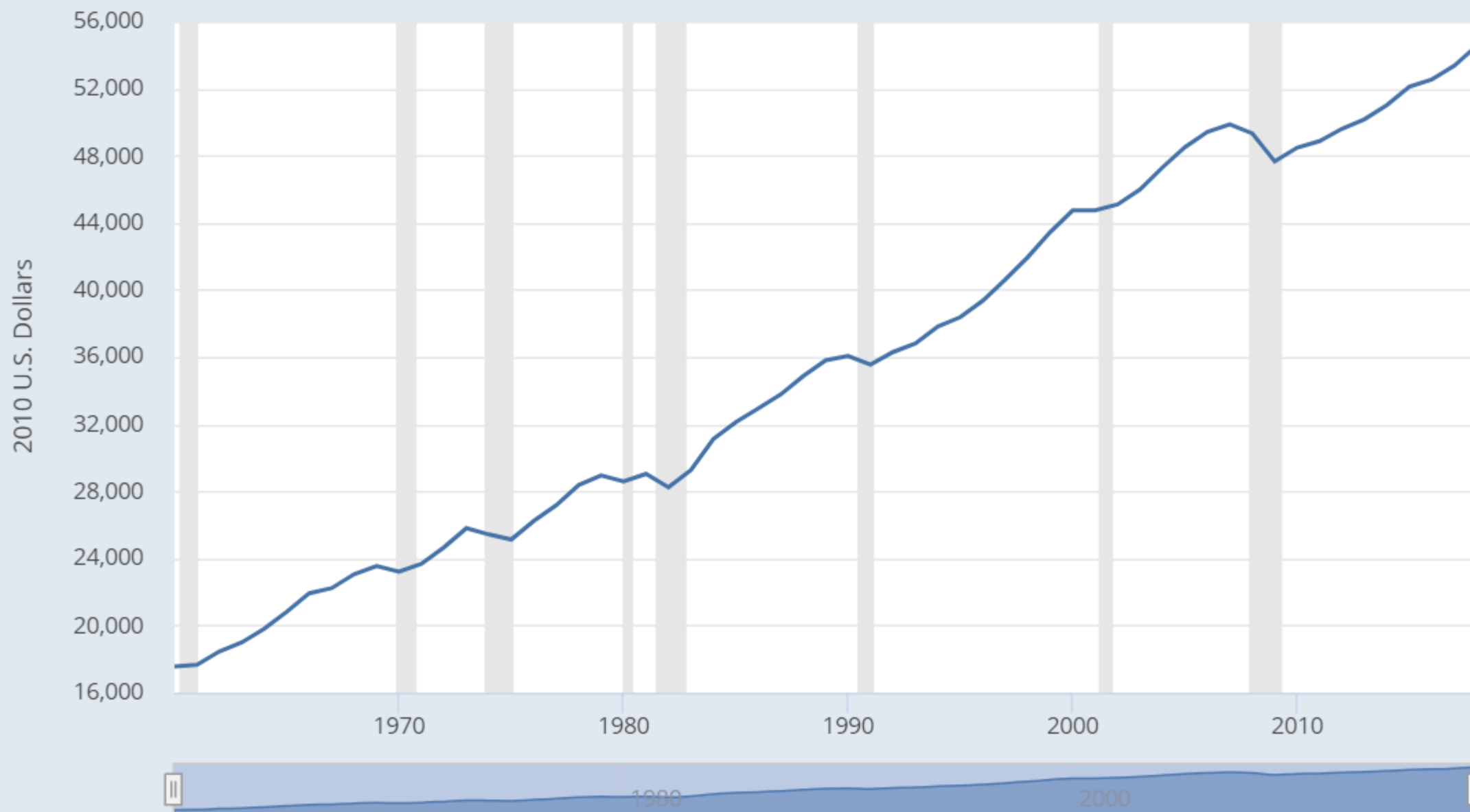
- Many students experience personal and family problems, as well as emotional difficulties, such as depression, suicidal thoughts, and anxiety, while in college.
- The Counseling and Wellness Center
 - Room 5003, Academic Building (via Lift 3).
 - You can also make an online appointment with student counselors.
 - Outside office hours, you can call 8208 2688, which is a 24-hour helpline for all HKUST students.

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What is this course about?

- The Economic growth
- Business cycles
- Real GDP per capita \approx Size of an economy per person
- The U.S.
(<https://fred.stlouisfed.org/series/NYGDPNPCAPKDUSA>)
- China (<https://fred.stlouisfed.org/series/NYGDPNPCAPKDCHN>)
- Hong Kong
(<https://fred.stlouisfed.org/series/NYGDPNPCAPKDHKG>)



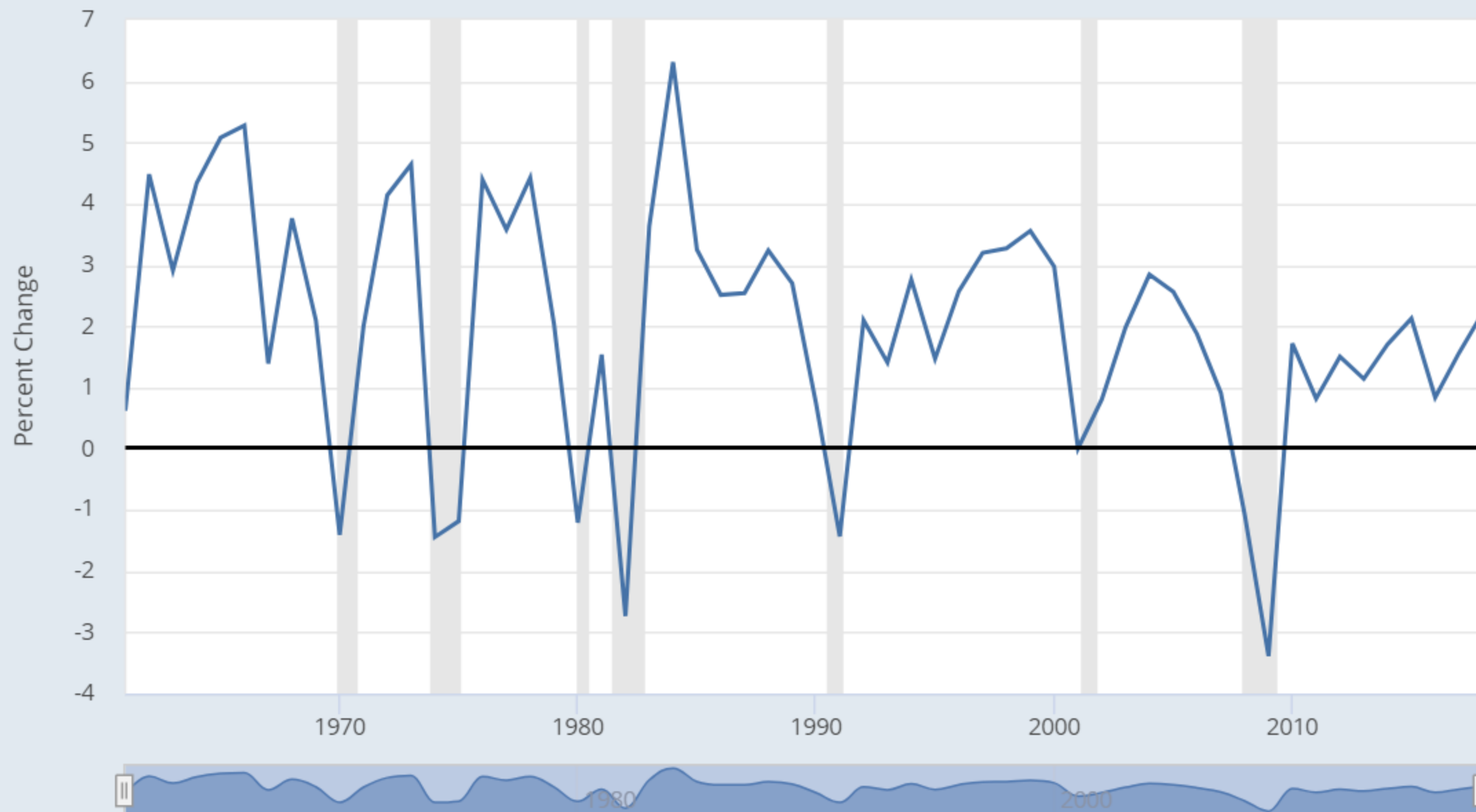
Shaded areas indicate U.S. recessions

Source: World Bank

fred.stlouisfed.org

In growth rates?

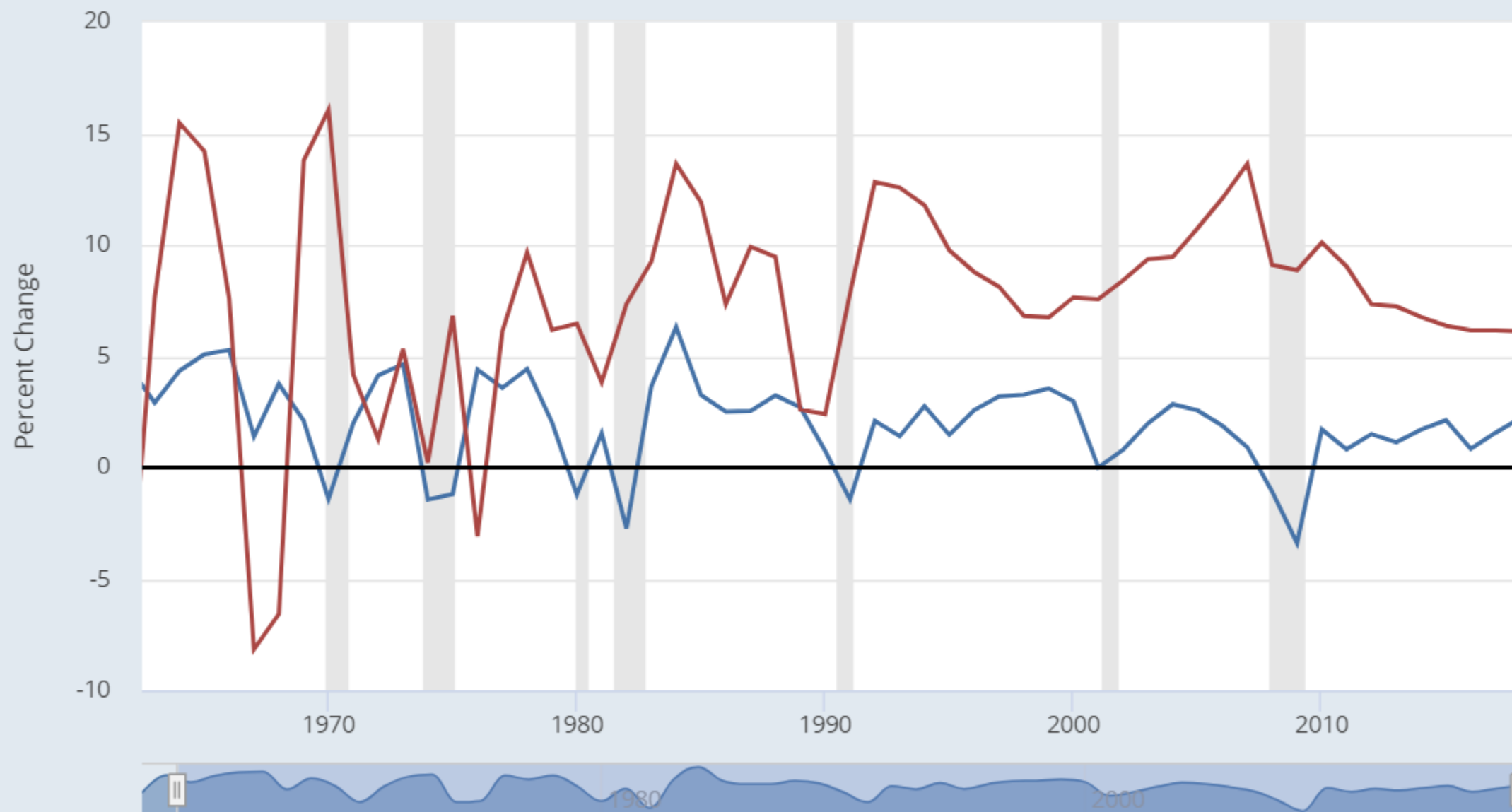
- $g_X(t) = \frac{X(t) - X(t-1)}{X(t-1)}$
- Example
 - 100 → 103: the growth rate is 3 percent
 - 200 → 198: the growth rate is -1 percent



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Questions on the economic growth

- What determine the speed of economic growth?
- Why do countries have different rates of growth?
- Will the under-developed countries eventually catch up the developed countries?

Fed keeps rates steady, but 'carefully monitoring' coronavirus and global risks

By [Donna Borak](#), [CNN Business](#)

Updated 1305 GMT (2105 HKT) January 30, 2020

Washington (CNN Business) — The Federal Reserve on Wednesday held interest rates steady despite renewed pressure from [President Donald Trump](#) to make deeper cuts.



Policymakers unanimously agreed to maintain rates hovering between 1.5% and 1.75% as they pointed to continued signs of a strong economy.

Questions on the monetary policy

- What does the central bank do to stabilize the economy?
- How does it adjust interest rates?
- Why does it cut rates in face of economic slowdown (recession)?

Seoul unveils biggest stimulus plan since global financial crisis

Song Jung-a in Seoul AUGUST 29, 2019

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The finance ministry on Thursday proposed spending a record Won513.5tn (\$424bn) in 2020, up 8 per cent from this year even when including a recently approved Won5.83tn supplementary budget to prop up the slowing economy.

Questions on the fiscal policy

- What does the government do to stabilize the economy?
- Why does it spend more in face of economic slowdown (recession)? How does it help?
- What is the similarity and difference between the effects of monetary and fiscal policies?

Links

- <https://edition.cnn.com/2020/01/29/economy/federal-reserve-interest-rates-january-decision/index.html>
- <https://www.ft.com/content/5e813d5a-ca0a-11e9-a1f4-3669401ba76f>

Roadmap

- Introduction
- Business cycles in a closed economy
 - IS – LM model and the short run
 - The Labor Market
- Midterm
- The Phillips curve and the medium run
- The long run (economic growth)
- Final

In the next class

- We will define real / nominal GDP, the unemployment rate, and the inflation rate.
- Blanchard, Chapter 2.