University of Michigan
Department of Economics

Econ 402 Intermediate Macroeconomics **Winter 2018**
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Office Hours: Mondays 3:00 – 4:00

Course Overview

Unlike microeconomics, which analyzes the behavior of individual economic agents, the study of macroeconomics attempts to understand the workings of entire economic systems made up of potentially millions of consumers and firms. Among the topics we will focus on are economic growth, business cycles, unemployment, and monetary policy.

Until the 1970s, there had been a period of broad consensus in macroeconomics. Up until this time the accepted model of the economy was the IS/LM model, which was based at least loosely on the writings of John Maynard Keynes. During the 1960s, Milton Friedman and Edmund Phelps called into question some of the important components of the IS/LM model. In particular they argued that the Phillips curve, which held that there was a systematic tradeoff between unemployment and inflation, was not a stable relationship. While not completely unscathed by these criticisms, the Keynesian version of the economy and the IS/LM model nevertheless exited the 1960s still as the dominant macroeconomic theory. However, by the mid-1970s it became clear that the IS/LM model was seriously flawed. Observed high rates of inflation and unemployment coupled with strong theoretical critiques of the model forced the profession to completely reexamine the basic issues and assumptions underlying the field.

In response, macroeconomics was rebuilt on so-called “microeconomic foundations.” The newer models exhibited many features of the IS/LM model but were fully-articulated dynamic systems. By the late 1990s a new consensus had begun to reemerge. This new-found consensus would not last however. The sub-prime mortgage crisis in 2007 and the subsequent financial crisis in 2008-2009 demonstrated that important gaps remain in macroeconomic thought. Just as the stagflation in the 1970s led to a dramatic revision of the field, the financial crisis has pushed the profession in new directions. In this course, we will study macroeconomics from both an empirical and a theoretical perspective. We will also cover some of the more recent developments in the field.

Prerequisites

Prerequisites: Econ 101 and 102, and Math 115. It is strongly recommended that students take Econ 401 before 402. We use algebra throughout the course as well as some basic calculus.

Readings

The textbook is ***MACROECONOMICS*** by N. Gregory Mankiw, ***9th ed. 2016***. I follow the text somewhat loosely. Additionally, there is a readings packet and a notes packet available at DollarBill copying. Other readings may be distributed on the course’s Canvas website.

Homework

Homeworks should be concise and **must be neat –** paper that has been torn out of a spiral bound notebook is unacceptable. In general, late homeworks will not be accepted.

Grading and Exam Schedule

The grade for the course will be based on two midterm exams, a homework grade, and a *cumulative* final exam. The weighting for each exam and the exam dates are as follows:

Homework:	**20%**	
Midterm Exam I:	**20%**	**FEBRUARY 7 (Wednesday)**
Midterm Exam II:	**20%**	**MARCH 21 (Wednesday)**
Final (cumulative):	**40%**	**APRIL 24, 4:00-6:00 PM (Tuesday)**

A student who misses an exam without a valid excuse will receive a zero for that exam. If a student misses a midterm exam and has a legitimate (documented) excuse, the weight for the exam may be shifted to the final at the instructor's discretion. A medical excuse must be accompanied by the medical form required by the Department of Economics (this form is available on the department's website → Undergraduates → Policies and Procedures). This documentation must be received within one week of the scheduled exam.

Typically, there is no curve in the class. I offer extra credit on exams and on the homework.

The final examination is scheduled using the official examination schedule provided by the registrar. Make your end-of-term plans accordingly. Please do not request an early or make-up examination owing to travel plans or similar contingencies. Approval of excuses is at the sole discretion of the instructors. If a student misses the final exam and has a legitimate, documented excuse, there will be a makeup final exam in January.

Re-grade Requests

A re-grade is allowed only if there are clear grading errors. To request a re-grade, students need to provide a typed explanation stating why a re-grade is needed. If the request is legitimate, the instructors will re-grade the entire exam (and not just the questions in which there appears to be a conflict). Re-grade requests must be submitted within one week after the exam is returned.

Miscellaneous etc.

My office hours are on Mondays from 3:00–4:00 and by appointment. Please make appointments by e-mail (chouse@umich.edu). Students can also ask questions by e-mail. Questions of general interest may be posted on the Discussions section of the class web site.

Rich Ryan (richryan@umich.edu) is the head GSI. Please address administrative questions (i.e., overrides, switching sections, etc.) to him first.

COURSE OUTLINE

Introduction--Basic Issues

1.)	Introduction	Mankiw Ch 1 and class notes
2.)	Macroeconomic Data	Mankiw Ch 2 and class notes

Basic Dynamic Macroeconomic Theory

1.)	Dynamic Utility Maximization	Mankiw Ch 16
i.	The "Fisher Model"	Mankiw sec. 16-2 (pp. 480-489)
a.)	The real rate of return	
b.)	Intertemporal budget constraints	
c.)	Optimal choices in a two-period environment	
ii.	More than two periods	
a.)	The *Permanent Income Hypothesis*	Mankiw sec 16-4 (pp. 493-497)
b.)	The *Random Walk Hypothesis*	Mankiw sec 16-5 (pp. 497-499)
c.)	Optimal choices with an infinite horizon	class notes
2.)	Equilibrium in the Two-period Model	class notes
i.	The Market for Loanable Funds	Mankiw pp. 71-75
ii.	Investment Demand	Mankiw Ch 17 and class notes
iii.	Asset Pricing and the CAPM	class notes
iv.	Government Spending and Taxation	Mankiw Ch 19 and pp. 72-74
a.)	The traditional view of deficits	Mankiw sec 19-3 (pp. 564-566)
b.)	Ricardian Equivalence	Mankiw sec 19-4 (pp. 566-572)

3.) Current U.S. Budget Issues

i. Overview of the U.S. Tax System and Social Security.

ii. Long-term Budget Outlook

Congressional Budget Office (CBO), "The 2017 Long-term Budget Outlook."

Congressional Budget Office (CBO), "Estimated Deficits and Debt under the Chairman's Amendment in the Nature of a Substitute to H.R. 1 The 'Tax Cuts and Jobs' Act."

Parlapiano, "Six Charts That Help Explain the Republican Tax Plan." *New York Times*,

MIDTERM EXAM #1 – Feb 7 (Wednesday)

Economic Growth

1.) Growth Facts

Jones, Charles, Ch.1 from *Introduction to Economic Growth* by Charles Jones, 2013.

Parente, Stephen and Edward Prescott, "Changes in the Wealth of Nations", *Federal Reserve Bank of Minneapolis Quarterly Review*, (spring) 1993.

2.) Production Functions and Factor Demands — Mankiw sec 3-1 and 3-2 (pp. 49-65)

3.) The Neoclassical (Solow) Growth Model — Mankiw Ch 8, 9 and class notes

4.) Growth Policy — class notes

5.) Globalization and Inequality

Postrel, "The Rich Get Rich and the Poor Get Poorer. Or Do They?" *The Boston Globe*, 2002.

MIDTERM EXAM #2 – March 21 (Wednesday)

Business Cycle Analysis

1.) Business Cycle Facts — Mankiw sec 10-1 (pp. 282-289)

Kydland, Finn and Edward Prescott, "Real Facts and a Monetary Myth", *Federal Reserve Bank of Minneapolis Quarterly Review* spring 1990.

2.) Traditional Business Cycle Theory

- a. Basic AS/AD model — Mankiw sec 10-3 and 10-4
  - i.) The Quantity Theory of Money — Mankiw sec 5-1 (pp. 106-112)
- b. The "Keynesian" Model (IS/LM) — Mankiw Ch. 11 and 12
  - i.) Fiscal Policy
  - ii.) Monetary Policy
- c. Aggregate Supply and the Phillips Curve — Mankiw Ch. 14
- d. Flemming-Mundell Model (International) — Mankiw Ch. 13

3.) Modern Theories (time permitting)

- a. "Real" business cycle models — class notes
- b. Financial Market Failure — class notes
  - i.) Credit Rationing
  - ii.) Bank Runs
  - iii.) Toxic Assets
  - iv.) Credit Market Collapse
- c. Coordination Failures and Herding — class notes

FINAL EXAM – April 24, 4:00-6:00 pm (Tuesday, cumulative)