Overview

This is a course in introductory macroeconomics, with a strong emphasis on international applications. There are two objectives for this course. The first is to develop simple models of the goods and services, asset, capital, and labor markets which can be usefully applied to generate realistic predictions regarding the behavior of such macroeconomic variables as: output; employment; inflation; the current account; and interest and exchange rates. The second is to apply these models to understand and interpret current and historical macroeconomic developments, primarily in the industrialized OECD countries.

Administrative Minutiae

The techniques will be basically geometric, although algebra will be used throughout.

Class communication will be conducted via e-mail outside class. Students should add themselves to the class alias as soon as possible, in order to receive class instructions.

The text for the course is the most recent edition of Macroeconomics by Mankiw (though the early editions are quite similar). (Recent editions of) Macroeconomics by Dornbusch and Fischer is a good additional reference, as are the texts by Hall and Taylor, Gordon, Abel and Bernanke, and Barro. In the case of difficult material, students are encouraged to consult another text. In any case, students are strongly urged to read the textbook in advance of the lectures, especially given that grades allocated for in-class participation.

The required readings for the course are not available in a photocopied course reader. Instead, students are required to familiarize themselves with all important current and recent macroeconomic developments in countries of relevance. One good way to do this to read the (daily) Financial Times regularly. Another option is The Economist (a weekly magazine). (Sign-up sheets for both the FT and The Economist with student subscription discounts will be available in the first class; both also have web-sites). Empirical (as well as theoretical) knowledge of key macroeconomic relationships, data, and policy issues (recent and current) will be considered a prerequisite for passing the course.

Grading

Grades will be allocated on the basis of: in-class participation; a mid-term test; a final exam; and an applied international project. The mid-term, project and in-class participation will each be worth 20% of the final grade; the final accounts for 40%.

Optional problem sets will be distributed electronically. These will not be graded, nor are they worth formal credit. However, the names of students who hand in problem sets will be recorded, and students on the margin of receiving a higher grade will benefit from completing problem sets.
The final exam will be in the official exam week. The mid-term is currently scheduled for Thursday March 2.

In-class participation grades will be allocated on the basis of quality and quantity of participation. Prompt daily attendance in class is required. (If an absence is required, students should e-mail the instructor in advance.) Students are also required to use name cards and to sit in the same seat throughout the semester. “Cold calls” will be used extensively. Witty heckling of the professor, victimless humor, literary and political allusions, and insightful correct answers are all encouraged and will be suitably rewarded. Students are allowed to opt out of attending (and/or answering cold calls) for one or two sessions without cost, upon appropriate application to the instructor. Students who are uncomfortable answering cold calls after a few weeks should speak to the instructor. Classroom etiquette will be discussed in class.

Any complaints about grading must be submitted in writing within one week of grade issuance.

The Group Project

The project is an integral part of the course. It is DUE WITHOUT EXCEPTION ON OR BEFORE May 1 (noon). Moreover, all groups must hand in a one paragraph tentative outline of the project to the instructor on or before March 23 (11:00am). This outline should contain the tentative title of the project, group members, the idea of the project, data and literature sources, etc. All written material submitted should be word-processed in good English. Your project will be graded mostly on its substance, but style (especially the clarity of exposition and the logical flow of the paper) is also important.

The project must be an application of macroeconomic tools to a situation of interest to the students (and these interests need not coincide with those of the instructor). Projects must include a theoretical framework and relevant data. Students are encouraged to study countries foreign to themselves.

An ideal group consists of five members, but groups can be somewhat larger or smaller. The ideal length of the project is approximately twelve to fifteen pages, though this too is flexible.

In the event that a person does not believe that all other members of her/his group have contributed fairly to the project, each person has the option to assign scores (from 0 [worst] to 10 [best]) to the members of the group other than him/herself. There is no obligation to submit such an evaluation; non-submission will be interpreted as fair work by all other group members. These peer evaluations will be taken into account by the instructor in assigning project grades.

What is a Good Project?

A good project poses an interesting question and then answers it, using theoretical and empirical analysis. Case studies of interesting historical economic events (such as exchange rate crises, recessions, or hyperinflations) are acceptable. Students can also provide current analysis of a given country, or explain how macroeconomic events affect a given industry or macroeconomic sector. Examples of good questions include the following:

1. What caused the Mexican devaluation of 1994?
2. What were the consequences of the Polish “big bang” of January 1990?
3. What effects did German Unification have for France?
4. What are the sources of high growth in South-East Asia?
5. Is Vietnam a good investment for American companies?
6. What caused the Argentine recession of 1995?
7. What caused the Thai devaluation of 1997?
8. What are the current macroeconomic prospects for Russia?
9. Was Malaysia right to impose capital controls in 1998?
10. How should international investors react to the ideas for IMF reform?
11. What consequences will EMU have for Ireland?
12. How did Argentina react to the Brazilian flotation of January 1999?

A good paper usually: a) asks a well-defined question; b) identifies an appropriate theoretical framework to organize the data and c) applies actual data to figure out the answer. Data and secondary sources should be well documented and cited appropriately. An academic (rather than a journalistic) style is appropriate, with full citations, well-documented data sources, a solid conceptual framework, and well-labeled graphs and tables.

**Data for the Project**

The Long library contains standard macroeconomic data sources for a wide variety of countries. The Economist's Intelligence Unit, in conjunction with Business International, produces quarterly *Country Reports* and annual *Country Profiles* on many countries. The International Monetary Fund publishes *International Financial Statistics* on a monthly basis, which contains data for most macroeconomic variables of interest for its member countries; access to IFS is available through the library. The OECD produces annual *Economic Surveys* for the "Western" countries, and summarizes data across countries in *Main Economic Indicators*. Citibank produces "CITIBASE" which is a PC-readable data base of macroeconomic data, focusing mainly on the US. Diskettes for both OECD MEI and CITIBASE can be signed out from the Institute for Business and Economic Research. The Clausen Center for International Business and Policy also purchases several data sets that are available from the Computer Center or the Library (including *The World Resources Data Base*, *The Global Economic Data Base*, *World Data*, *International Financial Statistics*, and the *National Trade Data Bank*). The Clausen Center also provides on-line access to *Datastream* through a dedicated terminal in the Bakar Computer Center. Virtually all countries produce bulletins from central banks (as well as annual yearbooks) which have data and discussion of current economic developments. In addition, the following journals are extremely useful sources of accessible macroeconomic articles (all are available in the library): *Brookings Papers on Economic Activity*, *Economic Policy*, and *The Journal of Economic Perspectives*. Further, institutions such as the National Bureau of Economic Research (NBER), the Centre for Economic Policy Research (CEPR), the IMF, the OECD and the World Bank all have valuable web sites. You can link to many of these sites from the instructor’s home page.
Tentative Course Outline
(Readings in Mankiw's text in parentheses)
[tentative class time planned]

I. Introduction to Critical Concepts (1,2) [one lecture]

II. Long-Run Relationships
   A. The Level of Output and National Income: Production; Distribution; and Allocation (3) [two lectures]
   B. Long-Run Trends: Economic Growth, Productivity and Savings (4,5) [three lectures]
      1. The Solow growth model. Technological change and capital accumulation; accounting for
         the sources of economic growth.
      2. International differences in growth.
   C. Adding Labor: Unemployment, Employment and Wages in the Long Run (6) [two lectures]
      1. Frictional and Structural Unemployment. The natural rate of unemployment.
      2. Differences in labor markets across countries and over time. Eurosclerosis.
   D. Adding Asset Markets and the Nominal Side: Inflation, Money and Interest Rates (7) [three lectures]
      2. Hyperinflation.
   E. Opening the Economy: Exchange Rates, and the Current Account (8) [two lectures]
      1. The real exchange rate and the current account.
      2. Theory and evidence on purchasing power parity.

MID-TERM [one class]

III. Short-Run Economic Fluctuations
   A. Introduction to Aggregate Demand and Aggregate Supply (9) [one lecture]
      1. Application to oil-price and velocity shocks.
   B. The Multiplier Model (10-1) [two lectures]
      1. Fiscal Policy.
   C. The Closed Economy IS-LM Model (10-2, 11) [two lectures]
   D. The Open Economy “Mundell-Fleming” IS-LM Model of Capital Mobility (12) [three lectures]
      1. Monetary policy and Mundell’s “Holy Trinity”.
      2. Exchange Rate Regimes.
   E. The Labor Market, Supply Side and the Phillips Curve (13) [two lectures]
   F. Economic Policy (14) [two lectures]
      1. The European Monetary System and European Monetary Union.
         Case: The European Currency Crisis of 1992
      2. Rules vs. Discretion, and central bank independence.
   G. Analysis of Some of the Functions Underlying the Model
      1. Money Supply (18) [one lecture]
      2. Consumption (16) [one lecture]
   H. Summary, Roundup and Review (Epilogue)