

Macroeconomic Theory

EC202 (Spring 1996)

TTh, 12:00-1:15

Carney 204

Prof. Chris Canavan

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Office Hours: TTh2:00-3:00

Course Description

In this course we will study how national economies behave and how they interact with the rest of the world. We will study the long-run behavior of economies: what makes them grow, how wealth is distributed to different groups, what determines important variables such as interest rates, unemployment and inflation. We will also study short-term behavior of economies and ask: What causes booms and recessions? How can policy makers influence the economy?

A good understanding of macroeconomics is important to all of you. Some of you will become policy makers, some of you will trade government bonds. All of you are citizens and have an obligation to be thoughtful and responsible when you judge your government's economic policies. Whatever you do, you ought to be able to think clearly about macroeconomics. I put a premium on well-constructed opinions, regardless of which way your opinions point. Keep this in mind when you are discussing issues in class, preparing your homework assignments, and taking exams.

The text for the course is *Macroeconomics*, by N. Greg Mankiw, from Worth Publishers (hereafter referred to as GM). It is available in the bookstore.

Course Requirements

The prerequisites for this course are Principles of Microeconomics (EC131) and Principles of Macroeconomics (EC132).

Your course grade will be based on:

- two mid-term exams and one final exam, all closed-book. These will test your mastery of the analytical tools you have learned in class. **The first mid-term exam will be Tuesday, February 6. The second mid-term will be Thursday, March 21.** I will give no make-up exams. If you miss one of the mid-term exams, the weight from that exam will be placed on the subsequent exam (which may be the final).
- a set of debates, to be held in class, on topics to be provided in class. Each debate will pit two teams of three students against each other. Each team is required to prepare a ten-page essay presenting its view, and to make a 10-minute presentation of this view in class. Each team must hand in its essay prior to participating in the classroom debate. All three members of the team will receive the same grade.

Thirty-five percent of your grade will come from the final, 17.5 percent from each of the mid-terms, and the rest from the debate assignment. Grading will follow university policy as explained in the Undergraduate Catalog. There are twelve categories—A, A-, B+, B, B-, C+, C, C-, D+, D, D-, F—where A is excellent, B is good, C is satisfactory, D is passing but unsatisfactory, and F is failure.

Main Topics

1. What is macroeconomics?
GM Chs. 1 and 2
2. What is national income?
GM Ch. 3
Benjamin Friedman, "U.S. Fiscal Policy in the 1980s: Consequences of Large Budget Deficits at Full Employment"
3. How and why do economies grow?
GM Ch. 4
William Baumol, "Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show"
4. Inflation
GM Ch. 6
Thomas Sargent, "The Ends of Four Big Inflations"
5. Turbulence in national economies
GM Ch. 8
6. Turbulent demand
GM Ch. 9 and 10
7. Unemployment: The Natural Rate and the Phillips Curve
GM Ch. 5
GM Ch. 11
8. Can/should the government control turbulence?
GM Ch. 12
9. How economies interact with the rest of the world
GM Ch. 7
10. The short run in the open economy
GM Ch. 13

Debate Topics and Dates

Thursday, April 11

- Is the U.S. government debt too large?
- Should Europe adopt a single currency?

Thursday, April 18

- Should the Fed try to lower unemployment?
- Should the U.S. adopt a balanced budget amendment?

Thursday, April 25

- Is Japan's current account surplus too large?
- Should Mexico have a currency board based on the dollar?