Course Syllabus

EC202.04: Macroeconomic Theory
Boston College, Department of Economics
Fall 2013

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Course Description

This course gives an intermediate treatment of macroeconomics for undergraduate students. It provides the essential tools for understanding the mechanics and evolution of the economy and for evaluating current policy debates. Building on the theory of modern macroeconomics, this course discusses possibilities and limitations of macroeconomic policy in dealing with business cycles, unemployment, inflation, and growth, in particular in the context of the recent financial crisis and of a sustainable economic development.

Required Background

The prerequisites for this course are Macro Principles (EC132) and Calculus I (MT100 or MT102). We use a lot of algebra and a tiny bit of calculus. Although I briefly review some of the necessary mathematical tools, you should be familiar with them in advance.

I strongly urge you to regularly read an authoritative source of economic news and analysis, such as the Economist, the Financial Times, or a serious newspaper from a country of your choice. We frequently discuss the current state of the economy and current policy debates in class.

Textbook

The course will follow


The Boston College bookstore offers a cheaper edition of this book, customized to this class:
It contains all the chapters from Blanchard/Johnson that we will cover in this class.
The study guide for the previous edition of the textbook
provides easy review problems and self-test exercises with solutions, and is perfect for exercising your mind.

Teaching Assistant
Zulma Barrail is the teaching assistant for this course. You can reach her either by email (barrail@bc.edu) or by visiting her office hours on TBA in the Economics department computer lab (room 480A) in Maloney Hall (21 Campanella Way).

Exams, Homework, and Grading
Your grade will consist of
• Project, homework and class participation:
  • Project (2 reports at 5% and 15%): 20%
  • 8 submitted homeworks: 10%
  • Class participation: 5%
• Midterm exam: 20%
• Final exam: 45%.

The examinations will be a combination of multiple choice questions, “true or false” questions, graphical and numerical problems, similar to the homework. The exams are closed book and closed notes. Any unverified absence during a midterm or final exam will result in a zero score for that exam.

I encourage you to work in groups on homework and project. Up to 3 students can form one study group and submit their homework and the project jointly. You must pick your group by the time the second homework is due, and you cannot switch groups thereafter for the rest of the course. In your own interest you should attempt to solve the homework on your own before your study group meets – you will be glad you did during the exams when you are on your own. Homework is due at the beginning of class. Submission after 1:00pm on the due date will result in a 20% penalty. Late assignments will not be accepted after graded homework has been returned to students.

I expect you to carefully read the textbook, and work through the exercises at the end of each chapter in the textbook. Consider working with your study group on exercises in the book, even if they were not assigned as homework.
Class Location and Time
Class location: Campion 200
Class time: Tuesdays and Thursdays, 10:30am–12:00noon

Important Dates
September 17th (Tuesday): Second homework due, last day to choose a study group
October 17th (Thursday): Midterm exam (in class)
November 26th (Tuesday): Project due
December 18th (Wednesday): Final exam EC202.04 at 9:00am

Please refer to the course website at http://www2.bc.edu/~strasseg/EC202_Fall13.htm for interim report and homework due dates.

Class Material
All lecture notes, homework assignments, project instructions, as well as some supplementary material are available on Blackboard. The course website (http://www2.bc.edu/~strasseg/EC202_Fall13.htm) provides a link to blackboard.

Academic Integrity, Disability Services
Any infraction of Boston College’s Academic Integrity Policy (available online at http://www.bc.edu/publications/gcatalog/policy.shtml#integrity) will result in an F for the course and the offense will be reported to the Dean’s office. There will be no exceptions. Boston College is committed to providing equal and integrated access for students with disabilities to all available academic, social, and recreational programs and activities. The Disability Services Office at Boston College ensures that students with disabilities receive appropriate accommodations and assistance in order to participate fully in University programs. If you need assistance please get in touch with the Office of the Dean for Student Development (http://www.bc.edu/offices/odsd/disabilityservices.html).

Course Topics
(Leading numbers refer to chapters in the custom edition, number in italics to chapters in the 6th edition of the standard text.)

Introduction
The course begins with a very short math refresher and an introduction to the issues and approach of macroeconomics. We review fundamental economic variables, and discuss their limitations in describing the state of the economy.
• 1: Basic Concepts and Current Economic Issues (2)
• A1: National Income and Product Accounts (appendix 1)
• A2: Math Refresher (appendix 2)

The Short Run
In the short run, demand determines output. Many factors affect demand, from consumer confidence to fiscal and monetary policy. We learn how to build and work with an economic model, and how assumptions affect the model’s prediction.

• 2: Goods Market (3)
• A3: Introduction to Econometrics (appendix 3)
• 3: Financial Markets (4)
• 4: Goods and Financial Markets together: IS-LM Model (5)
• 8: Causes and Mechanisms of the Financial Crisis of 2008/2009 (9)

The Medium Run
In the medium run, the economy returns to a level of output associated with the natural rate of unemployment. With the AS-AD model can talk about the evolvement of the economy over time. We discuss the tradeoff between short run and medium run objectives in the context of past and current policy questions.

• 5: Labor Market (6)
• 6: All 3 Markets together: AS-AD Model (7)
• 7: Natural Rate of Unemployment, Phillips Curve, and Inflation (8)
• 8: Economies astray: Great Recessions and Great Depressions (9)

The Long Run
Historically, in the long run growth dominated fluctuations. So now we ask: What determines growth? What is growth? How can we make it sustainable?

• 9: Facts of GDP Growth; GDP and Happiness (10)
• 10: Saving, Capital Accumulation, and Output (11)
• 11,12: Technological Progress and Growth (12,13)
• 12: Sustainable Growth (13)

In the second part of the course (November) we extend the model to account for expectations and discuss the limits of economic policy. In particular:

• 13, 14, 15, 16: Expectations about the future affect current output. The effect of policy depends crucially on how expectations respond. We ask: How do people form expectations? How must optimal policy account for changing expectations? (14–17)
• 17, 18, 19: Summing up, what can policymakers realistically achieve? What should they do, and what should they keep their hands off? (22–24)