

# EC202.03, Macroeconomic Theory

Fall 2003

Gasson Hall 209

Tuesday and Thursday, 3 pm

## Syllabus

Fabio Ghironi

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Room 473

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### Welcome:

Feel free to address me as Fabio. You can address me as Professor Ghironi if you prefer to do so. You can find out a lot about me by visiting [my web site](#) .

## **Purpose of the Course:**

This course covers the theory of modern macroeconomics in detail. We will discuss several examples of macroeconomic phenomena in the real world. We will focus on the determination of macroeconomic variables in the short, medium, and long run, and we will address a number of policy issues. A central theme will be understanding the powers and limitations of macroeconomic policy in stabilizing the business cycle and promoting growth.

## **Prerequisites:**

There is only one formal prerequisite: You must have successfully completed EC 131-132, Principles of Economics.

I will keep math to the minimum necessary. However, I strongly encourage you to take calculus and strengthen your knowledge of math and more rigorous economics as much as possible while at Boston College. It will help you immensely later on, whether you are looking for a job (a tougher selection of courses will be a better signal that you are hard-working candidates to prospective employers) or enrolling in graduate school (the stronger your formal training, the higher your probability to make it through grad school).

## **Office Hours:**

I will hold office hours on Tuesday afternoons from 4:30 to 6:30 pm (21 Campanella Way, room 473). You are welcome to schedule appointments at other times by calling (617-552-3686) or e-mailing me ([Fabio.Ghironi@bc.edu](mailto:Fabio.Ghironi@bc.edu)).

## Textbook:

[Macroeconomics](#) , by Olivier Blanchard, Prentice Hall, Third Edition, 2002, available at the BC Bookstore. The Study Guide by David Findlay is also required. Textbook and study guide should be bundled in a "value pack" including also an Interactive CD and a subscription to the online version of [The Economist](#) . Occasionally, I will distribute additional material or point you to readings from the [textbook web site](#) , which I encourage you to explore. I also suggest that you follow current economic events by reading newspapers ( [Financial Times](#) , [The New York Times](#) , [The Wall Street Journal](#) , [The Washington Post](#) ) and magazines ( [Business Week](#) , [The Economist](#) , [Fortune](#) ). Course materials will be posted in the [teaching section of my web site](#) .

## Requirements and Grading:

Your grade for the course will be based on a combination of requirements:

- Weekly Homework Assignments;
- A Midterm Exam;
- A Policy Advising Exercise;
- A Final Exam.

Active class participation is not a formal requirement, but you should feel free to ask questions at any time during lectures.

I want you to learn how to think about macroeconomic issues and to interpret phenomena that you are exposed to in the media. **Homework Assignments** will help you to develop the ability to "think macro." You should work very hard on them. The harder you work on your assignments, the more likely it is that you will do well in the exams. You are allowed to work in groups on the homework, but each

member of any group must turn in her/his own answers. Free-riding on the work of other members of your group will not be a successful strategy. Exams will consist mostly of homework-type questions. If you do not work hard on the homework, you will fail the exams. Your homework answers will be graded by my **Teaching Assistant** (Victor Stebunovs, [stebunov@bc.edu](mailto:stebunov@bc.edu) ). You should rely on him as an additional resource for the class. He will prepare answers to the homework assignments that will be distributed in class. He will hold review sessions as well as office hours at a time and in a location to be announced.

The **Midterm Exam** will take place in class, at our usual meeting time **on Tuesday, October 21**. It will consist of homework-type questions. There *may* be multiple-choice questions. In this case, the motivation of your answer will count more than the answer itself. For this exam, you will be responsible for the material covered up to and including the last lecture before the exam date. You should use the exercises in the Study Guide as well as the material in the Interactive CD to practice for the midterm and final exams.

The **Policy Advising Exercise** will be structured as follows: You will have to form groups of four/five students. Each group will have to give a presentation of approximately (and at most) 20 minutes in which the group will have to provide a convincing answer to the following question: **Should the Federal Reserve raise, lower, or leave the Federal Funds Rate unchanged at its next policy meeting?** The group will have to make a case for its recommendation by using theory and data. (Suggestions on data sources are in the appendix to Chapter 1 of the textbook. See also the [sources available through the BC Economics Department](#) and the [FRED database](#) of the Federal Reserve Bank of St. Louis.) The case for the recommendation made by the group will be more important than the recommendation itself. **All members** of the group will have to speak during the

presentation, which should rely on overhead transparencies or PowerPoint. (To maximize effectiveness, groups should practice their presentations several times.) Evidence that all members of the group contributed to the project will have a positive effect on the evaluation of the exercise. This will be performed by a commission consisting of myself and two BC doctoral students in economics. You will have to pretend that the three persons facing you are the Governors of the Federal Reserve, and you are the Fed economists advising them on the course of U.S. monetary policy. Your presentation will be followed by up to 10 minutes of questions from the "Fed Governors." **Most, if not all, members** of the group should be actively engaged in answering the questions. The **lists** of group members must be submitted to me **by Thursday, October 16**. We will schedule the **presentations** at times to be announced **in the second half of November**.

(The Fed Challenge competition for high school students is the model for this exercise. I was a judge in that competition and appreciated the high quality of those students' work.)

The **Final Exam** will take place **on Wednesday, December 17, 12:30 pm**. The exam will again consist of homework-type questions and, possibly, multiple-choice questions (the same caveat as before applies to the relative importance of answer and motivation). The final exam will cover material from the entire course.

**The weights of the various requirements in your final grade will be as follows:**

- **Homework Assignments: 15 percent;**
- **Midterm Exam: 25 percent;**
- **Policy Advising Exercise: 15 percent;**
- **Final Exam: 45 percent.**

There will be no makeup exam, except for well

documented, acceptable excuses ahead of time, such as medical reasons or family emergencies. (I will verify your excuses.)

If I catch anyone cheating, the consequences will be drastic. At a **minimum**, whoever is caught cheating will fail the test in which she or he was caught in the act. I require that you abide by [BC's standards of Academic Integrity](#) .

**Grade Complaints:** There is a standardized procedure for submission of grade complaints in the College of Arts and Sciences. You must follow the procedure if you have complaints.

## **Course Outline:**

Following is a list of the topics we will cover, along with the reference to the relevant chapter of Blanchard's textbook, which we will follow quite closely.

### **Part I. Introduction.**

The Vocabulary of Macroeconomics, Blanchard, Chapter 2.

Macroeconomics in the Real World, Blanchard, Chapter 1.

### **Part II. The Core.**

#### *The Short Run.*

The Goods Market, Blanchard, Chapter 3.

Financial Markets, Blanchard, Chapter 4.

Goods and Financial Markets: The IS-LM Model, Blanchard, Chapter 5.

#### *The Medium Run.*

The Labor Market, Blanchard, Chapter 6.  
Putting All Markets Together: The AS-AD Model,  
Blanchard, Chapter 7.  
The Natural Rate of Unemployment and the Phillips  
Curve, Blanchard, Chapter 8.  
Inflation, Activity, and Nominal Money Growth, Blanchard,  
Chapter 9.

### *The Long Run.*

The Facts of Growth, Blanchard, Chapter 10.  
Saving, Capital Accumulation, and Output, Blanchard,  
Chapter 11.  
Technological Progress and Growth, Blanchard, Chapter  
12.  
Technological Progress, Wages, and Unemployment,  
Blanchard, Chapter 13.

### **Part III. The Role of Expectations.**

Basic Tools, Blanchard, Chapter 14.  
Financial Markets and Expectations, Blanchard, Chapter  
15.  
Expectations, Consumption, and Investment, Blanchard,  
Chapter 16.  
Expectations, Output, and Policy, Blanchard, Chapter 17.

**Time permitting**, we will cover some material from the  
following parts:

### **Part IV. The Open Economy.**

Openness in Goods and Financial Markets, Blanchard,  
Chapter 18.  
The Goods Market in an Open Economy, Blanchard,  
Chapter 19.  
Output, the Interest Rate, and the Exchange Rate,

Blanchard, Chapter 20.

Exchange Rate Regimes, Blanchard, Chapter 21.

## **Part V. Policy.**

Should Policy Makers Be Restrained? Blanchard, Chapter 24.

Monetary Policy, Blanchard, Chapter 25.

Fiscal Policy, Blanchard, Chapter 26.

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