

Course Syllabus

EC202: Macroeconomic Theory

Boston College, Department of Economics
Spring 2010

Georg Strasser

Office: Room 443, 21 Campanella Way
Office Hours: Tuesday 3:00pm – 5:30pm
Office Phone: (617) 552 1954
Email: Georg.Strasser@bc.edu

Course website: http://www2.bc.edu/~strasseg/EC202_Spring10.htm
Class location: Campion 303, Tuesdays and Thursdays 1:30pm – 3:00pm

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 a sustainable economic development.

Prerequisites

Macro Principles (EC132), Calculus I (MT100 or MT102)

Required Background

We use *algebra* and a little bit of *calculus*. We briefly review the necessary tools, but to enjoy this class you must be able and willing to deal with a few technicalities. I expect you to carefully read the textbook, and work through the set of exercises at the end of each chapter. I strongly urge you to regularly read an authoritative source of economic news and analysis, such as the Economist, the Financial Times, or a respected *economic newspaper* from a country of your choice. We will frequently discuss the current state of the economy and policy debates in class, and homework and exams are likely to ask you for an informed discussion of current events.

Textbook

Olivier Blanchard, **Macroeconomics**, Pearson Prentice Hall, 5th edition, 2009

David Findlay, **Study Guide Macroeconomics**, Pearson Prentice Hall, 5th edition, 2009

Consider buying the textbook together with the study guide, which is available in a discounted package at the BC bookstore. The study guide provides you with easy review problems and self-test exercises with solutions, and is perfect for exercising your mind.

Teaching Assistant

Name: Xinhao Dong

Email: dongxc@bc.edu

Office Hours: Wednesday 3:30pm – 5:30pm

Office: Room 462C, 21 Campanella Way

Exams, Homework, and Grading

Your grade will consist of

- Project, homework and class participation:
 - Project (3 reports at 5%, 5%, and 10%): 20%
 - 10 submitted homeworks: 10%
 - Class participation: 5%
- Midterm exam (Thursday, March 11th, 1:30pm): 20%
- Final exam (Monday, May 17th, 12:30pm): 45%.

The *examinations* will be a combination of multiple choice questions, “true or false” questions, graphical and numerical problems, and short essays, similar to the homework. 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. Each member of the group will get the same homework and project grade, so choose your group wisely. 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. *Late submission* of homework will result in a 20% penalty. Late assignments will not be accepted after graded homework has been returned to students.

Exercises in the book, beyond the homework you submit, are an integral part of the course and are compulsory. Consider working with your study group on exercises in the book, even if they were not assigned as homework.

Important Dates

February 2nd (Tuesday): Second homework due, last day to choose a study group

March 11th (Thursday): Midterm exam at 1:30 pm (in class)

April 29th (Thursday): Project due

May 17th (Monday): Final exam at 12:30 pm

Please refer to the course website at http://www2.bc.edu/~strasse/EC202_Spring10.htm for interim project and homework due dates.

Class Material

All lecture notes, homework assignments, project instructions, as well as some supplementary material are available on Blackboard. If you need to submit your homework electronically, please do so by email *before* the beginning of class on the due date. If you develop flu symptoms, do not go to class. Try to keep up with class assignments using the materials available on Blackboard and notify me and your dean. For more information please refer to the H1N1 Academic Protocols for Faculty and Students at http://www.bc.edu/offices/uhs/education/H1N1_flu.html.

Academic Integrity, Disability Services

Any infraction of Boston College's Academic Integrity Policy (available online at <http://www.bc.edu/offices/stserv/academic/resources/policy.html#integrity>) will result in an automatic *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. Students requiring assistance are advised to get in touch with the Office of the Dean for Student Development (on the web at <http://www.bc.edu/offices/odsd/disabilityservices.html>).

Course Topics

(Chapters refer to the textbook.)

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.

- Current Economic Issues (chapters 1, 2)
- Math Refresher (appendix 2)
- National Income and Product Accounts (appendix 1)

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.

- Goods Market (chapter 3)
- Introduction to Econometrics (appendix 3)
- Financial Markets (chapter 4)
- Goods and Financial Markets together: IS-LM Model (chapter 5)
- The Financial Crisis of 2008/2009: Causes and Implications

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 evolution 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.

- Labor Market (chapter 6)
- All 3 Markets together: AS-AD Model (chapter 7)
- Natural Rate of Unemployment and Phillips Curve (chapter 8)
- Inflation, Activity, Nominal Money Growth (chapter 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?

- Facts of GDP Growth; GDP and Happiness (chapter 10)
- Saving, Capital Accumulation, and Output (chapter 11)
- Technological Progress and Growth (chapters 12, 13)
- Sustainable Growth

In the second part of the course (April/May) we dive deeper into some extensions of the core model, for example

- Expectations about the future affect current output. The effect of policy depends crucially on how expectations respond. We ask: How do people form expectations? Are expectations rational? How must optimal policy account for changing expectations? (chapters 14–17)
- Most economies trade both goods and assets with the rest of the world. What are the implications of this openness? (chapters 18–21)
- Sometimes the economy goes astray, like in 2009: Output drops sharply, and unemployment remains high. What are the causes of such economic breakdowns and how can they be resolved? (chapters 22 and 23)
- What should policymakers do? (chapters 24–26)