Course Syllabus
ECON2202.03: Macroeconomic Theory
Boston College, Department of Economics
Fall 2014
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Office Hours: Tuesday 3:00pm–5:00pm

Course Description
This course introduces undergraduate students to macroeconomic theory. It provides the analytical foundation and essential tools for understanding the mechanisms underlying the (macro-) economy and for evaluating policy debates. Building on the theory of modern macroeconomics, this course discusses the possibilities and the limitations of macroeconomic policy in dealing with business cycles, unemployment, inflation, and growth, in particular in the context of the challenges stemming from the recent financial crises and of a sustainable economic development.

Required Background
The prerequisites for this course are Macro Principles (ECON1132) and Calculus I (MATH1100 or MATH1102). 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 required textbook for this course is
A study guide is available for a previous edition of the textbook


This study guide is not required in any way, but you might benefit from its review problems and self-test exercises with solutions.

**Teaching Assistant**

Michael Connolly is the teaching assistant for this course. You can reach Michael either by email (connolbl@bc.edu) or by visiting Michael’s office hours on Thursdays from 2:00pm until 4:00 pm in the Economics Department in the graduate student lounge (Maloney Hall, 3rd floor, room 326).

**Exam and Grading**

Grading will be based on

- Total Project Score (based on the 3 reports weighted at 25%, 25%, and 50%) and
- 4 Test Scores.

Out of these 5 scores I will use only the 4 best to determine your final grade.

All examinations are in class. They focus on current material, but are cumulative. Expect 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 an exam will result in a zero score for that exam, and you lose your “free shot” in this way. Please inform me of time conflicts with the exam schedule at the beginning of the semester. There are no makeup exams during the semester.

The course is organized around the project. During the semester, you will learn more and more tools and facts that help you address the project question at an increasingly comprehensive and sophisticated level. Therefore report 3 will most likely look very different from report 1, even if you kept your basic storyline. I encourage you to work in groups on homework and project. *Up to 3* students can submit a joint report. Details about the report are in a separate handout that you will get in the first lecture.

Homework assignments are not graded, but answer keys are posted. Homeworks are the best way to prepare for the tests. I also expect you to carefully read the textbook, and work through the “Quick Check” and “Dig Deeper” exercises at the end of each chapter in the textbook.
Class Location and Time

Class location: Campion Hall 200
Class time: Tuesdays and Thursdays, 9:00am–10:15am

Class Material

Lecture notes, homework assignments, project instructions, as well as some supplementary material are available on Canvas. You can find the class schedule, useful data links, and a link to Canvas on the course website:

www2.bc.edu/~strasseg/ECON2202_Fall14.htm

Important Dates

September 11th (Thursday): Interim Report 1
September 25th (Thursday): Quiz 1
October 16th (Thursday): Quiz 2
November 6th (Thursday): Interim Report 2
November 11th (Tuesday): Quiz 3
December 4th (Thursday): Quiz 4
December 9th (Tuesday): Final Report

Please refer to the course website at www2.bc.edu/~strasseg/ECON2202_Fall14.htm for updates.

Academic Integrity, Disability Services

Any infraction of Boston College’s Academic Integrity Policy (available online at www.bc.edu/content/bc/offices/stserv/academic/univcat/undergrad_catalog/policies_procedures.html#integrity) will result in an F for the course and the offense will be reported to the Dean’s office.

If you are a student with a documented disability seeking accommodations in this course, please contact Kathy Duggan, (617) 552-8093, dugganka@bc.edu, at the Connors Family Learning Center regarding learning disabilities and ADHD, or Paulette Durrett, (617) 552-3470, paulette.durrett@bc.edu, in the Disability Services Office regarding all other types of disabilities, including temporary disabilities. Advance notice and appropriate documentation are required for accommodations.
Course Topics

(The leading numbers refer to the lecture notes. The relevant chapters in the 6th edition of the textbook are given in parentheses.)

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 scope and limitations in describing the state of the economy.

- Basic Concepts and Current Economic Issues (chapters 1, 2)
- 01: National Income and Product Accounts (appendix 1)
- Review yourself: 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.

- 02, 03: Goods Market (chapter 3)
- 04: Financial Market (chapter 4)
- 05,06: Goods and Financial Markets together: IS-LM Model (chapter 5)

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.

- 08,09: Labor Market (chapter 6)
- 10,11: All 3 Markets together: AS-AD Model (chapter 7)
- 12,13: Natural Rate of Unemployment, Phillips Curve, and Inflation (chapter 8)
- 14: Economies astray: Banking Crises, Great Recessions and Great Depressions (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?

- 15: Facts of GDP Growth; GDP and Happiness (chapter 10)
- 16: Saving, Capital Accumulation, and Output (chapter 11)
- 17: Technological Progress and Growth, Sustainable Growth (chapter 12)
- 18: Technological Change and Society, Effect on Unemployment and Inequality (chapter 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:

**Modern Macroeconomics: The Role of Expectations**

Expectations about the future affect current output. The effect of policy depends crucially on how expectations respond. But how do people form expectations? How must optimal policy account for changing expectations?

- 19,20: Expected Present Value, Expected Inflation, and their Application to Stock and Bond Markets (chapters 14,15)
- 21: Effect of Expectations on Consumption and Investment (chapter 16)
- 22: Effect of Expectations on Output and on the Effectiveness of Policy (chapter 17)

**Summary of Policy Implications**

Summing up, what can policymakers realistically achieve? What should they do, and what should they keep their hands off?

- 23: Should Policymakers be Restrained? (chapter 22)
- 24: Scope and Limitations of Monetary Policy (chapter 24)
- 25: Debt Monetization and High Inflation (chapter 23)
- 26: Scope and Limitations of Fiscal Policy (chapter 23)