

University of Kansas
Department of Economics

Economics 701
Survey of Macroeconomics

Spring 2009
Professor Keating

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Office Hours: Tuesdays and Thursdays: 4 to 5:30 PM; Otherwise I am often available by appointment.

Readings: The textbook is the 5th edition of *Macroeconomics* by Olivier Blanchard published by Prentice Hall [denoted by B and chapter numbers in Readings, and I use “Apn” and a letter or number to reference an appendix in this and other books]. Suggested readings are also drawn from the text written by Stephen Williamson [W] that is published by Addison Wesley. These readings are not required. Williamson happens to share the same title, *Macroeconomics*. But in a number of ways these books are very different. For example, Blanchard is strictly Keynesian whereas Williamson is predominantly Classical. Furthermore, Blanchard studies a wider range of topics while Williamson investigates the micro foundations of macroeconomics in greater detail and at a more technical level (particularly in the appendices). {If you are planning to get a PhD in economics, I recommend reading Williamson before you start the first year PhD macro sequence.}

The primary limitation to Blanchard is the depth of coverage on economic growth. Therefore I have also assigned readings from the 2nd edition of *Introduction to Economic Growth* by Charles Jones [G] published by Norton. This text provides an excellent introduction to growth theory and empirical evidence on growth. (David Weil’s book on Economic Growth is also outstanding on the growth empirics.)

Readings from David Romer’s notes titled “Short-Run Fluctuations” are assigned as well. These notes provide a simple version of a new way of modeling the macroeconomy that I believe is a significant improvement over traditional textbook analysis. Romer’s notes can be found in 2 files: [Text](#) and [Figures](#).

I highly recommend reading the *Wall Street Journal* on a regular basis. In my view, the WSJ is the best daily source of current information on economic matters of all kinds. Its coverage of macro stories gives you an opportunity to see how theories actually play out in the real world. I anticipate some test questions will be motivated by current macroeconomic events. However, reading the WSJ is optional, not a course requirement. The *Economist* magazine and the *New York Times* are also excellent sources of current macroeconomic information.

Below I have listed some additional readings. Some are from chapters in other books. For example, additional readings are from the 3rd edition of *Advanced Macroeconomics* by David Romer [A] published by McGraw Hill in 2001; the 2nd edition of *Macroeconomic Theory* by Thomas J. Sargent [S] published by Academic Press in 1987, and *Monetary Economics: Theory and Policy* by Ben McCallum published by MacMillan in 1989. Most of the other listed additional readings are journal articles that are easily downloaded by going to the syllabus on my Web page and clicking on the relevant document(s). I will make clear whenever an additional reading is required. Typically, they are not required.

Homework is regularly assigned. These questions are based primarily on material from the readings and class. Your answers are not collected. I will provide solutions to the homework questions. **It is very important to put in a good effort on homework BEFORE you see the solutions!** Exam questions will be related to these homework questions, although rarely, if ever, will they be the same.

My Web Page: <http://www.people.ku.edu/~jkeating/> . It has a copy of this Syllabus, a link to BlackBoard, and information that economists and students of economics may find interesting. I will generally use my Web page to distribute important course materials (e.g. homework assignments, solutions to homework questions that I write). However, if there is something that I don’t wish to make public or am not allowed to make public, I will use BlackBoard (e.g. lecture notes that contain graphs

from texts, solutions to text homework questions). I do not post grades on BlackBoard.

EXAM SCHEDULE: FIRST MIDTERM: Tuesday, February 24, in class
SECOND MIDTERM: Tuesday, April 7, in class
FINAL: Friday May 15 , 2-4 pm, in our classroom.

Grading: Each test is worth 150 course points.

Exam Policies: Excused exam absences are given only under justifiable circumstances and permission must be obtained from me prior to the scheduled exam period, if that is at all possible. Under most circumstances, you should at least be able to call my office and leave a message on my voice-mail saying why you are unable to take the test at the scheduled time. The letter grade for one excused mid-term absence will be the same as your letter grade on the final exam. Unexcused absences earn 0 points.

Examination rules:

- (1) Closed-book tests;
- (2) If you believe there is some error in your grade, but you answered in pencil or anything else that is erasable, your test will not be eligible for re-grading;
- (3) Calculating devices are not permitted during tests; and
- (4) Cheating on tests will be punished to the fullest extent allowable at KU.

Exam Return Policy: I will let you keep your exams for nearly the entire semester, but I must have them back by the end of the semester. Make sure you give them back to me before the final exam, and sooner would be better to reduce the chance that you might lose an exam. For every exam that is not returned to me, I will subtract 20 points from your total course points.

Attendance Policy: I expect you to regularly attend class. I realize that sometimes problems (e.g. health issues) may occur that force you to miss a few classes. I do not plan to take attendance and will initially assume that when you miss a class you had an unavoidable time conflict. **However, if attendance is consistently too low, I will change the grading structure of this class. Specifically, I will start to take attendance or, alternatively, implement unannounced pop quizzes. Whichever one of these I may select would count for 50 points yielding a total of 500 course points.**

COURSE OUTLINE

TOPICS	TEXT READINGS
1. INTRODUCTION TO MACROECONOMICS:	B:1,2,14-1, Apn:1,2; W:1,2
Woodford, Michael “Revolution and Evolution in Twentieth-Century Macroeconomics” 1999 Working Paper version of publication in: <i>Frontiers of the Mind in the 21st Century</i>	
Chapter 1: Macroeconomics Lecture Notes for a Masters Course , Gregor Smith, unpublished, 2000	
Steindel, Charles “Chain-Weighting: The New Approach to Measuring GDP” <i>Current Issues in Economics and Finance</i> , New York Federal Reserve Bank, 1995	
Nordhaus, William D. “Principles of National Accounting For Non-Market Accounts”	

2. ECONOMIC GROWTH:

G:1,2,3,9, Apn:A
B:10,11,12

Economic Growth, 2nd ed, David N. Weil, Addison-Wesley, 2009

Oliner, Steven & Daniel Sichel [“Resurgence of Growth in the Late 1990s: Is IT the Story?”](#), *Journal of Economic Perspectives*, 2000

David, Paul A. [“The Dynamo and the Computer: An Historical Perspective on the Modern Productivity Paradox”](#) *The American Economic Review*, 1990

3. GOODS MARKETS:

B:3,14-2,16 W:4,5,8,9

Friedman, Milton, *A Theory of the Consumption Function*, Princeton University Press, 1957.

Ando, Albert & Franco Modigliani [“The "Life Cycle" Hypothesis of Saving: Aggregate Implications and Tests”](#), *American Economic Review*, 1963

Hall, Robert E. & Dale W. Jorgenson [“Tax Policy & Investment Behavior”](#) *American Economic Review*, 1967

Hubbard, R. Glenn, “Capital Market Imperfections and Investment” *Journal of Economic Literature*, Vol. 36, no. 1, March 1998, (also available as [NBER WP # 5996](#))

Bernanke, Ben & Alan Blinder ["Credit, Money and Aggregate Demand"](#) *American Economic Review*, 1988

4. MONEY & FINANCIAL MARKETS:

B:4, 15

DeLong, J. Bradford, [“The Triumph of Monetarism?”](#) *The Journal of Economic Perspectives*, 2000

5. IS-LM MODEL & REPLACING LM WITH THE MP CURVE:

B:5,14-3 S:1,2
A:5.1,5.2 W:15

Romer, David “Short-Run Fluctuations” Chapter 1

Romer, David [“Keynesian Macroeconomics without the LM Curve”](#), *Journal of Economic Perspectives*, 2000

Judd, John & Glenn Rudebusch, [“Taylor’s Rule and the Fed, 1970-97”](#), *Economic Review*, San Francisco Federal Reserve Bank, 1998

Carlstrom Charles & Timothy Fuerst [“The Taylor Rule: A Guidepost for Monetary Policy?”](#) *Economic Commentary*, Cleveland Federal Reserve Bank, 2003

Taylor, John B. [“Discretion Versus Policy Rules in Practice”](#) *Carnegie-Rochester Conference Series on Public Policy*, 1993

Laubach, Thomas, and Williams, John C. ["Measuring the Natural Rate of Interest"](#) *The Review of Economics and Statistics*, 2003

6. LABOR MARKETS:**B:6 W:16**

Blanchflower, David & Andrew Oswald [“An Introduction to the Wage Curve”](#) *Journal of Economic Perspectives*, 1995

Juhn, Chinhui, Kevin Murphy & Robert Topel [“Current Unemployment Historically Contemplated”](#), *Brookings Papers on Economic Activity*, 2002

Katz, Lawrence & Alan Krueger “The High-Pressure US Labor Market of the 1990s” *Brookings Papers on Economic Activity*, 1999, ([1999 Princeton Working paper version](#))

7. THE AGGREGATE SUPPLY & AGGREGATE DEMAND MODEL: B:7 W:12 A:5.3,10.3

Romer, David “Short-Run Fluctuations” Chapter 3

8. THE PHILLIPS CURVE:**B:8, Apn:3 A:5.4**

Friedman, Milton [“The Role of Monetary Policy”](#) *American Economic Review*, 1968

9. INFLATION & ECONOMIC ACTIVITY:**B:9,14-4,25-2 A:10.2
W:16****10. MARKET CLEARING MODELS OF BUSINESS CYCLES:****W:11****11. FACTS ABOUT BUSINESS CYCLES:****W:3**

Stock, James & Mark Watson [“Business Cycle Fluctuations in U.S. Macroeconomic Time Series”](#), 1998 NBER (National Bureau of Economic Research) Working Paper version of the paper that is published in the *Handbook of Macroeconomics* (1999)

Basu, Susanto & Alan M. Taylor, [“Business Cycles in International Historical Perspective”](#) *The Journal of Economic Perspectives*, 1999.

Blanchard, Olivier & John Simon [“The Long and Large Decline in U.S. Output Volatility”](#) *Brookings Papers on Economic Activity*, 2001

Stock, James & Mark Watson [“Has the Business Cycle Changed? Evidence and Implications”](#) in *Monetary Policy and Uncertainty*, Kansas City Federal Reserve Bank’s 2003 Symposium

Stock, James & Mark Watson “Has the Business Cycle Changed and Why?”, NBER *Macroeconomics Annual*, 2002 (available as [NBER Working Paper # 9127](#))

12. TECHNOLOGICAL PROGRESS, WAGES & UNEMPLOYMENT: B:13**13. EXPECTATIONS & ECONOMIC ADJUSTMENTS: B:17**

Chapter 8: *Monetary Economics: Theory and Policy*, Ben McCallum, 1989

Chapter 3: [Macroeconomics Lecture Notes for a Masters Course](#), Gregor Smith, 2000

[“A Guide to FRB/US: A Macroeconomic Model of the United States”](#), working paper from the Board of Governors of the Federal Reserve System (various authors), 1996

14. HIGH UNEMPLOYMENT & HIGH INFLATION: B:22,23 A:10.9

Ball, Laurence, *Money and Banking*, 2008, Worth:
Chapter 3: “Asset Prices and Interest Rates”
Chapter 18: “Financial Crises”

Bernanke, Ben S. *Essays on The Great Depression*, Princeton University Press. 2000

Calomiris, Charles W. [“Financial Factors in the Great Depression”](#) *The Journal of Economic Perspectives*, 1993

Kuttner, Ken & Adam Posen [“The Great Recession: Lessons for Macroeconomic Policy from Japan”](#) *Brookings Papers on Economic Activity*, 2001

Reinhart, Carmen M. & Miguel A. Savastan [“The Realities of Modern Hyperinflation”](#) *Finance & Development*, 2003

15. A DEEPER LOOK AT MONETARY & FISCAL POLICY: B:24,25,26

Meyer, Laurence H., *A Term at the Fed: An Insider’s View*, (HarperBusiness, 2004)

Meltzer, Allan H., *A History of the Federal Reserve Volume 1: 1913-1951*, (University of Chicago Press, 2003)

Fischer, Stanley [“Why Are Central Banks Pursuing Long-Run Price Stability?”](#) in *Achieving Price Stability*, Kansas City Federal Reserve Bank’s 1996 Symposium.

Bernanke, Ben & Frederick Mishkin [“Inflation Targeting: A New Framework for Monetary Policy?”](#), *Journal of Economic Perspectives*, 1997

Bernanke, Ben & Gertler, Mark [“Monetary Policy and Asset Price Volatility,”](#) in *New Challenges for Monetary Policy*, Kansas City Federal Reserve Bank’s 1999 Symposium

Svensson, Lars [“Monetary Policy and Real Stabilization”](#) in *Rethinking Stabilization Policy*, Kansas City Federal Reserve Bank’s 2002 Symposium.

Romer, Christina & David Romer [“The Evolution of Economic Understanding and Postwar Stabilization Policy”](#) in *Rethinking Stabilization Policy*, Kansas City Federal Reserve Bank’s 2002 Symposium.

Auerbach, Alan [“Fiscal Policy, Past and Present”](#), *Brookings Papers on Economic Activity*, 2003

Ball, Laurence & N. Gregory Mankiw [“What Do Budget Deficits Do?”](#), in *Budget Deficits and Debt: Issues and Options*, Kansas City Federal Reserve Bank’s 1995 Symposium.

Mishkin, Frederic [“The Causes and Propagation of Financial Instability: Lessons for Policymakers”](#)
in *Maintaining Financial Stability in a Global Economy*, Kansas City Federal Reserve Bank’s
1997 Symposium.

16. OPEN ECONOMY MACROECONOMICS:

B:18,19,20,21 A:5.3

W:13,14

Romer, David “Short-Run Fluctuations” Chapter 2

Mishkin, Frederick [“Global Financial Instability: Framework, Events, Issues”](#), *Journal of Economic Perspectives*, 1999

Obstfeld, Maurice & Kenneth Rogoff [“The Unsustainable US Current Account Position Revisited”](#)
NBER Working Paper, 2004