Economics 102:

Advanced Macroeconomics

Swarthmore College

Professor Jefferson
Office Hours: W 10:30am-12pm & by appt.

Spring 2006
Kohlberg 212, x690-6856

COURSE DESCRIPTION:

Economies are characterized by variations in their rates of unemployment, inflation, and output growth. These variations are often caused by factors that are exogenous to a particular economy or by the macroeconomic policies pursued by a country's monetary and fiscal authorities. In this course, we will develop tools that help us to understand how various shocks affect a country's labor, asset, and product markets. Also, we will contemplate whether macroeconomic policy can ameliorate the variations in the rates of unemployment, inflation, and output growth that we observe.

TEXTS:

Romer, David (2006): Advanced Macroeconomics, 3rd Edition, McGraw-Hill, New York. (Required, denoted R)

Klein, Michael W. (2002): Mathematical Methods for Economics, 2nd Edition, Addison Wesley, New York. (Recommended, denoted K)

Selected articles, in PDF format, are on the campus network. The path is: \\Data-software \classes \Social Sciences\Economics\Econ 102\Readings for 102

GRADING:

20% Seminar participation
20% Seminar presentation
30% Essay 1: 5-6 pages, double spaced, 12pt font. (Due 28 February)
30% Essay 2: 5-6 pages, double spaced, 12pt font. (Due 18 April)

Essay extension policy: A quarter grade point penalty will be imposed for each week after the due date.

SEMINAR STRUCTURE:

Each week there will be a reading assignment, usually from Romer but sometimes from supplements. You should come to seminar prepared to answer and ask questions about the reading. There will also be a problem set that you should work through during the week and come to seminar prepared to present. I encourage you to work together on these problems. We will examine the motivations, intuitions, and analytics of the problems. Therefore, a premium will be placed on student preparation for the seminar time.

This is *not* a seminar in dynamic, stochastic analysis. However, we will rely on your multivariate calculus and elementary linear algebra. Also, we will have some sustained practice with non-stochastic differential equations. Take a hands-on and goal-directed approach to the math. Read the macroeconomics with a pencil in hand and with Klein at your side. Use Romer's footnotes. If he refers to the chain rule, look up "chain

rule" in the index to Klein; the ten minutes will make the difference between remembering the term from Math 16, 18, or 30 and actually using the method.

ESSAYS:

The essays are an opportunity for you to demonstrate your understanding of modern macroeconomics. They may synthesize lessons learned from reading and discussion across multiple topics. Alternatively, they may be a more in depth analyses of one particular topic that is of interest to you.

A premium will be placed on clear and concise writing. Therefore, points will be deducted from your essay for poor writing *unless* you turn it in with a complete "WAed" draft *signed* by one of this semester's Writing Associates. All essay submissions must be hard copy. No electronic submissions.

SEMINAR OUTLINE

Introduction and Overview (week 1)

The Keynesian Cross and IS/LM (week 2)
Reading: R section 5.1, Romer, D. (2000), "Keynesian Macroeconomics without the LM Curve," *Journal of Economic Perspectives* 14(2), Spring: 149-170.
Problem set 1: R problems- 5.1, 5.2, 5.3

Aggregate Demand in Closed and Open Economies (week 3)
Reading: R section 5.2
Problem set 2: R problems- 5.6, 5.9, 5.10

Neoclassical Growth Theory (week 4)
Reading: R chapter 1 and chapter 2 (skim)
Problem set 3: R problems- 1.5, 1.6, 1.8

New Growth Theory (week 5)
Reading: R chapter 3, P. Romer (1994): "The Origins of Endogenous Growth," *Journal of Economic Perspectives* 8(1), Winter: 3-22.
Problem set 4: R problems- 3.4, 3.5, 3.17

Real Business Cycle Models (week 6)
Reading: R chapter 4, Kydland, F. and E. Prescott (1996): "The Computational Experiment: An Econometric Tool," *Journal of Economic Perspectives* 10(1), Winter: 69-86.
Problem set 5: R problems- 4.8, 4.9

The Phillips Curve and the Rational Expectations Revolution (week 7)
Reading: R sections 5.3 through 6.3 (inclusive), Friedman, M. (1968), "The Role of Monetary Policy," *American Economic Review* 58, March: 1-17.
Problem set 6: R problems- 6.1, 6.3

Spring Break (*no class* March 7)

The New Keynesian Counter-Revolution (week 8)
Reading: R chapter 6 (parts B and C), Romer, D. (1993), "The New Keynesian Synthesis," *Journal of Economic Perspectives* 7(1), Winter: 5-22
Problem set 7: R problems- 6.9, 6.10, 6.11

Consumption (week 9)
Reading: R Chapter 7, Carroll, C. (2001): "A Theory of the Consumption Function, with and without Liquidity Constraints," *Journal of Economic Perspectives* 15(3), Summer: 23-45.
Problem set 8: R problems- 7.3, 7.9

Investment (week 10)

Reading: R Chapter 8, Hubbard, G. (1998): "Capital-Market Imperfections and Investment," *Journal of Economic Literature*, 36(1), March: 193-225.

Problem set 9: R problems- 8.1, 8.3, 8.5

The Labor Market and Unemployment (week 11)

Reading: R chapter 9, Blanchard, O. (2005), "European Unemployment: The Evolution of Facts and Ideas" *NBER Working Paper 11750*, November.

Problem set 10: R problems- 9.1, 9.2, 9.5

Inflation and Monetary Policy (week 12)

Reading: R chapter 10, Taylor, J. (1999): "A Historical Analysis of Monetary Policy Rules," in Monetary Policy Rules, edited by J. Taylor, University of Chicago Press, Chicago: 319-348.

Problem set 11: R problems- 10.5, 10.7, 10.12

Fiscal Policy (week 13)

Reading: R chapter 11, Page, B. (2005): "Analyzing the Economic and Budgetary Effects of a 10 Percent Cut in Income Tax Rates" *Economic and Budget Issue Brief*, Congressional Budget Office, December.

Problem set 12: R problems- 11.1, 11.3, 11.5