Economics 102

Advanced Macroeconomics

Swarthmore College

Prof. Steve O'Connell
Office hours: T 9-10:30am, Th 1-2:00pm

Fall 2007, MWF 9:30-10:20, K228
office K205, x8107

SEMINAR OBJECTIVES[1]

Macroeconomics is the study of fluctuations in unemployment, inflation, and output growth. This seminar introduces the basics of the optimizing, intertemporal, general-equilibrium approach to these topics. By the end of the semester you should have the following: a working familiarity with consumption and investment behavior, price rigidities, rational expectations, labor market equilibrium and unemployment, asset markets, and monetary and fiscal policy, as handled in modern dynamic macroeconomic models; an understanding of the main features of modern business cycles and the dominant approaches to explaining these fluctuations; an understanding of contemporary debates about the efficacy of stabilization policy; and facility with the algebraic and graphical analysis of low-order non-stochastic dynamic systems.

TEXTS

Romer, David (2006) *Advanced Macroeconomics, 3rd Edition*, McGraw-Hill, New York.
Selected articles, in PDF format, are on the campus network. The path is: \\Data-software \classes \Social Sciences\Economics\Econ 102\Readings for 102
For very useful mathematical background (on General Reserve), see:
Klein, Michael W. (2002) *Mathematical Methods for Economics, 2nd Edition*, Addison Wesley, New York.

GRADING

20% Seminar participation
20% Seminar presentations (problem solving, and 1 presentation of an assigned reading)
30% Essay 1: 5-6 pages, double spaced, 12pt font. (Due October 8)
30% Essay 2: 5-6 pages, double spaced, 12pt font. (Due Nov 26)
Essay extension policy: A quarter grade point penalty will be imposed for each week after the due date.

GROUND RULES

The typical week's material will include a reading from Romer, a problem set from Romer, and an outside reading. You must come to seminar prepared to contribute in each of these areas. One student will be assigned to present each outside reading (see ground rules below), but all students must come to seminar prepared to answer and ask questions about the reading. You should work through the problem sets in advance and come to seminar prepared to present answers to all problems. I encourage students to work together on the problems. The problems operate at multiple levels; our objective is not

[1] Thanks to Prof. Jefferson for the seminar design which I have adopted with little modification.

just to solve them but also to understand their motivations and intuitions. I will place a premium on your preparation for these discussions.

This is not a seminar in dynamic, stochastic analysis, but you will need your multivariate calculus and elementary linear algebra and we will have some sustained practice with non-stochastic differential equations. Take an active approach to your reading (pencil in hand: work out the math; use the footnotes). The Klein text will be useful in refreshing your understanding of terminology and methods from your math courses in linear algebra, multivariable calculus, and differential equation.

PRESENTING OUTSIDE READINGS:

Each week a student will present an outside article that has been read in advance by all students. As presenter you are responsible for a 25-minute presentation that motivates the topic, explains the central points of the article, and commenting critically on the nature and value of the contribution. Expect active questioning and discussion. I encourage (but do not require) you to use powerpoint slides and handouts to organize your presentation.

ESSAYS

The essays are an opportunity to demonstrate your understanding of modern macroeconomics. Your topic may be theoretical or applied, and your essay should synthesize and/or critique the relevant literature. I will place a premium on clear and concise writing. Therefore, I will deduct points 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 essays are to be submitted in hard copy.

SEMINAR OUTLINE

Introduction and Overview (week 1, Sept 3)

The Keynesian Cross and IS/LM (week 2, Sept 10)
Reading: Romer section 5.1,
Romer, D. (2000), "Keynesian Macroeconomics without the LM Curve," *Journal of Economic Perspectives* 14(2), Spring: 149-170.
Problem set 1: Romer problems- 5.1, 5.2, 5.3

Aggregate Demand in Closed and Open Economies (week 3, Sept 17)
Reading: Romer section 5.2,
Dornbusch, R. (1976), "Expectations and Exchange Rate Dynamics," *Journal of Political Economy* 84(6), December: 1161-76.
Problem set 2: Romer problems- 5.6, 5.9, 5.10

Neoclassical Growth Theory (week 4, Sept 24)
Reading: Romer chapter 1; Romer chapter 2 (skim)
Mankiw, N. G., D. Romer, and D. N. Weil (1992), "A Contribution to the Empirics of Economic Growth", *Quarterly Journal of Economics*. 107(2), May: 407-37.
Problem set 3: Romer problems- 1.5, 1.6, 1.8

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

Real Business Cycle Models (week 6, Oct 8)
First paper due in seminar.
Reading: Romer 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: Romer problems- 4.8, 4.9

Spring Break (*no class* October 15)

The Phillips Curve and the Rational Expectations Revolution (week 7, Oct 22)
Reading: Romer 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: Romer problems- 6.1, 6.3

The New Keynesian Counter-Revolution (week 8, Oct 29)

Reading: Romer 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: Romer problems- 6.9, 6.10, 6.11

Consumption (week 9, Nov 5)

Reading: Romer 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: Romer problems- 7.3, 7.9

Investment (week 10, Nov 12)

Reading: Romer Chapter 8,

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

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

The Labor Market and Unemployment (week 11, Nov 19)

Reading: Romer chapter 9,

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

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

Inflation and Monetary Policy (week 12, Nov 26)

Second paper due in seminar.

Reading: Romer chapter 10,

Taylor, J. (1999): "An Historical Analysis of Monetary Policy Rules," in *Monetary Policy Rules*, edited by J. Taylor, University of Chicago Press, Chicago: 319-348.

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

Fiscal Policy (week 13, Dec 3)

Reading: Romer 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: Romer problems- 11.1, 11.3, 11.5

Version: September 26, 2007