ECON 506 MACROECONOMICS I Fall 2010 Dr. Sauer Office: Econ Bldg. #2005/2028 Phone: 277-1963 or 277-5304 Hours: TR 11:00-12:30 or by appointment E-mail: <u>sauer@unm.edu</u>

COURSE DESCRIPTION

Econ 506 is the first course in the required two-semester sequence in macroeconomic theory for Ph.D. students. Its main focus is on comparative static analysis in the context of both traditional and modern macro models. Students will develop a deeper understanding of the key relationships in various theoretical models that can be used to analyze macro policy as well as shocks and disturbances to an economy. The main topics are alternative schools of macroeconomic thought, open economy macroeconomics, and economic policy under uncertainty.

It is assumed that students are familiar with the IS-LM/AD-AS model and basic calculus (partial and total differentiation). We will also use some matrix algebra (Cramer's rule) and the fundamental concepts of probability (random variables, expected values, means, and variances).

READINGS

The readings for this course draw on several textbooks, monographs, and articles. The required graduatelevel text *Advanced Macroeconomics* (3^{rd} edition, 2006, McGraw-Hill) by David Romer provides adequate coverage for the selected topics. In addition, N. Gregory Mankiw's *Macroeconomics*(7^{th} edition, 2010, Worth Publishers) is recommended as a companion text – its coverage of the selected topics is less technical and at an intermediate level. Both books are available at the UNM bookstore.; the Mankiw text is also available as an e-book at <u>www.coursesmart.com</u>.

Another good graduate-level text is *Foundations of Modern Macroeconomics* (Oxford University Press) by Ben J. Heijdra and Frederick van der Ploeg. Selected chapters will be available on the course homepage at <u>http://vista.unm.edu</u>.

The following macro textbooks are on one-day reserve at Parish Library. Further readings may be added as needed.

Branson (1989), Macroeconomic Theory and Policy (3rd edition).
Mankiw (2010), Macroeconomics (7th edition).
McCafferty (1990), Macroeconomic Theory.
Romer (2003), Advanced Macroeconomics (3rd edition).
Stevenson, Muscatelli, and Gregory (1988), Macroeconomic Theory and Stabilisation Policy.

For math questions, you may want to refer to your textbook for Econ 504 or Alpha Chiang's *Fundamental Methods of Mathematical Economics* (3rd edition, 1984). The latter is available in the reference section at Parish Library under the call number HB135, C47, 1984.

COURSE GRADE

There will be two exams (midterm and final), four quizzes, six problem sets, and a short data project over the course of the semester. A detailed course schedule follows below. Instructions for the project will be distributed separately. The final grade is a weighted average of your performance on the exams (2x100 = 200 points = 50%), the quizzes (4x15 = 60 points = 15%), the problem sets (6x19 = 114 points = 28.5%), and the project (26 points = 6.5%). There are 400 possible semester points. Fractionalized grading (+ and -) will be used. Late assignments are subject to penalty points.

<u>Cheating</u> on an exam, quiz, or any other assignment and <u>plagiarizing</u> other people's work are serious offenses that *will* result in a reduced or failing grade for the work in question and/or for the course as well as notification of the appropriate UNM authorities. Please refer to the university's academic regulations and procedures for further information.

<u>Exam Dates</u> :	Exam #1	Tuesday, Oct. 12, 2:00-4:00
	Exam #2	Tuesday, Dec. 14, 10:00-12:00
<u>Quiz Dates:</u>	Quiz #1	Tuesday, Sept. 7
	Quiz #2	Tuesday, Sept. 28
	Quiz #3	Tuesday, Nov. 9
	Õuiz #4	Tuesday, Nov. 30
<u>Due Dates for Problem Sets</u> :	Problem Set #1	Thursday, Sept. 9
	Problem Set #2	Thursday, Sept. 23
	Problem Set #3	Thursday, Oct 7
	Problem Set #4	Thursday, Nov. 4
	Problem Set #5	Thursday, Nov.18
	Problem Set #6	Thursday, Dec. 9
<u>Due Dates for Data Project</u> :	Proposal	Friday, Oct. 22
	Final Project	Friday, Nov. 12

COURSE SCHEDULE

OTHER INFO

Readings will be assigned on a weekly basis. You are expected to come to class prepared and actively participate in classroom exercises and discussions.

The graduate assistant for this class is Qiuhua Ma (office #1024, 277-3629, <u>qiuhua@unm.edu</u>). Her office hours are on Tuesdays and Thursdays from 12:30 to 2:00 pm.

Course materials such as problem sets, solutions, handouts, exam information, and additional readings will be posted on the course homepage (go to <u>http://vista.unm.edu</u>) or placed on reserve at Parish Library. Links to various internet sources for economists are accessible via my homepage (<u>www.unm.edu/~sauer</u>).

Qualified students with disabilities needing appropriate academic adjustments should contact me as soon as possible to ensure their needs are met in a timely manner. Handouts are available in alternative accessible formats upon request.

COURSE OUTLINE AND READINGS

(Required and recommended readings are indicated by ****** and *****, respectively.)

1. ALTERNATIVE SCHOOLS OF MACROECONOMIC THOUGHT (7-8 weeks)

- a. Keynesian Model of Short-Run Fluctuations
- b. Classical Model of Long-Run Fluctuations
- c. Role of Expectations

Branson, Chap. 4-10, 16.

- * Heijdra/Ploeg, Chap. 1, 2.1, 2.4, 6.1.
- ** Mankiw, Chap. 3, 9-11, 13.1, 15.1, 19.1, 20. McCafferty, Chap. 2-4.
- ** Romer, Chap. 5.1, 5.3.
- * Stevenson et al., Chap. 1-2, 5-6.
- * Maddock/Carter, A Child's Guide to Rational Expectations, JEL, Vol. XX, March 1982.

2. **OPEN ECONOMY MACROECONOMICS** (4–5 weeks)

- a. Basic Concepts
- b. Mundell-Fleming Model

Branson, Chap. 17.

- Heijdra/Ploeg, Chap. 11.1.
 McCafferty, Chap. 9.
- ** Mankiw, Chap. 5, 12.
- ** Romer, Chap. 5.2.
- * Stevenson et al., Chap. 7.1, 8.1, 10.1.

3. ECONOMIC POLICY UNDER UNCERTAINTY (4-5 weeks)

- a. Optimal Policy in Static Models
- b. Optimal Policy in Dynamic Models
- c. Strategic Monetary Policy and Inflation
- * Heijdra/Ploeg, Chap. 10.1.
- ** Mankiw, Chap. 15.2.
- * McCafferty, Chap. 11.
- ** Romer, Chap. 10.3-10.4.
- Stevenson et al., Chap. 9.
- * Schools Brief: Rules v Discretion, *The Economist*, 8 March 1991.

4. **ECONOMIC GROWTH** (1-2 weeks, time permitting)

- a. Basic Solow Model
- b. Human Capital-Augmented Solow Model

Branson, Chap. 23-27.

- * Heijdra/Ploeg, Chap. 14.1-14.4.
- ** Mankiw, Chap. 7-8.
- McCafferty, Chap. 8.
- ** Romer, Chap. 1, 3.8.