

Intermediate Macroeconomics

INSTRUCTOR: Louis Rouanet
OFFICE LOCATION: James Buchanan Hall D121
EMAIL ADDRESS: lrouanet@gmu.edu
OFFICE HOURS: Wednesdays from 10:30 to 6pm

ECON 311-004
Fall 2019
Music/Theater Building 1005
MWF: 9:30-10:20AM

“There are two steps to learning macroeconomics. First, to see it as it is today. Second, to understand how it got there: to understand the right and the wrong turns, the hypotheses that proved false, the insights that proved true, and the interaction of events and ideas. Only then, does one truly understand macroeconomics.” – Olivier Blanchard

1. COURSE DESCRIPTION

Economists are often considered as being, to say the least, a bit weird. They love making something very simple very abstract and then they love to claim it is actually simple. They love curves and complex graphs which look indecipherable to most, if not all, normal person. They love arguing with people and tell them they are wrong. I love graphs too, but in this class, I want above all to explain how powerful the economic logic is when applied to the macro-economic phenomena. Arguing, on the other hand, is encouraged in this class as long as it is done constructively.

Economics is easier than you think. It does not make any crazy or odd assumptions about individuals. It just considers that humans purposefully act, that they use means to achieve what they think is valuable the best they can. They do more of something when the cost to them is lower and less when the cost is higher. Economics does not assume that humans have perfect information, are selfish or never commit errors. It just says that humans act intentionally the best that they can.

Economics is also about the real world. It is not about complicated models which have no relationship to reality. It is not a joke or a collection of mind games. What economics teaches us is broadly applicable to all human actions and interactions. Economists have contributed to our understanding of markets, politics, religion, family, "primitive societies" and even pirates!¹

In this class, we will (sadly) put pirates aside and focus on learning the fundamental tools for understanding inflation, unemployment, economic crisis etc. Broadly speaking, macroeconomics is the study of two phenomena: long-run economic growth and short-run economic fluctuations, also known as business cycles. Given the scope and importance of these topics, it is impossible to adequately explore either of them in their entirety over the course of a single semester. Rather than attempt the impossible, the focus of this class will be the study of business cycles. This focus should not suggest, however, that the study of economic growth isn't important. As Nobel-winning

¹ If you are an economics major, I can only recommend that you read Peter Leeson's book on Pirates, *The Invisible Hook*. Peter Leeson is a professor here at GMU.

macroeconomist Robert Lucas (1988) once noted, “Once one starts to think about [economic growth], it is hard to think about anything else.”²

In my own experience as a student and as a teacher, mastering macroeconomics requires an understanding of both the theoretical paradigm that is currently dominant, and of past approaches that, for whatever reason, are no longer part of the mainstream. It is a mistake to believe that the science of economics progresses along a linear path of uninterrupted progress. Accordingly, examining macroeconomic theories that were once considered part of the mainstream is valuable, not only for historical reasons, but also because these ideas can aid in our knowledge of contemporary macroeconomics. Therefore, in this course we will explore both current and past theories of the business cycle.

During the first half of this course, our primary task will be to master the basic concepts and tools that macroeconomists use to analyze the operation of the economy. We will then use this analytical framework to evaluate different business cycle theories, including Keynesian, Monetarist, Real, and Austrian. Upon successfully completing this course, you will (1) possess an understanding of the data and analytical framework that macroeconomists use to study the production and allocation of output in both open and closed economies; (2) possess an understanding of the role that the monetary system plays in the economy; (3) be able to use the aggregate demand and supply model to analyze how the economy adjusts in the short- and long-run under alternative theories of the business cycle; (4) be able to explain the alternative perspectives on stabilization policy and government deficits and debt that emerge from these different theories.

This syllabus represents a contract between myself and the students. I will do my best to uphold the guidelines and schedule outlined below, and I expect you to do the same. If necessary, however, I reserve the right to alter the syllabus.

2. PREREQUISITES AND EXPECTATIONS

I expect that you have successfully completed the following prerequisites for this course: ECON 103, ECON 104, and MATH 108 or MATH 113. I assume that you have a basic understanding of macro and microeconomic principles, basic algebra, and elementary calculus. If you need to review these topics, I recommend that you use Marginal Revolution University and Khan Academy.

I also expect that you will treat your fellow classmates with respect, even if you disagree with them; reasonable minds can differ on any number of perspectives, opinions, and conclusions. Constructive disagreement sharpens our thinking and deepens our understanding; therefore, it is not only encouraged, but expected. All viewpoints are welcome in my class; however, no ideas are immune from scrutiny and debate.

Regular attendance is essential to successfully completing this course. As such, I expect you to attend all of the lectures. If you need to miss a class, it is your responsibility to obtain all lecture notes and assignments from one of your classmates.

3. RULES OF THE GAME

² If economic growth is a topic that interests you, I would encourage you to take one of the courses that the Economics Department offers on economic development and economies in transition. See, for example, ECON 360, 361, 362, and 380. You can also review the material on economic growth in the books that I’ve assigned for this course. See chapters 8 and 9 in Mankiw (2015), chapter 23 in Sowell, (2014), and chapter 11 in Snowdon & Vane (2005). I am also happy to suggest additional resources upon request.

a) Audio and video is strictly forbidden

For the privacy and comfort of your fellow students, audio and video recordings, as well as photography, is strictly prohibited during class.

b) Cheating will be severely punished

Cheating will not be tolerated and can result in a failing grade, dismissal from class, and expulsion from the university. If I suspect you of cheating, I will seek the appropriate punishment under George Mason University guidelines. Please review the [George Mason University Honor System and Code](#).

c) Computers, phones and distracting behavior are not allowed in class

According to recent research, using computers can negatively affect your ability to learn (Dynarski, 2017). In addition, their use can often be distracting for both your classmate and me. For this reason, no electronic device is allowed in class.

d) Special Accommodations

If you require any special accommodations, please see me immediately following the first class so that we can work together to make sure that you have what you need to succeed in this course. contact the Disability Resource Center (DRC) at 703-993-2474. All academic accommodations must be arranged through that office.

4. READING MATERIALS

There are one required books for this course:

- Mankiw, N. G. (2015). *Macroeconomics* (9th edition). New York: Worth Publishers.

I also recommend that you purchase a copy of Snowdon and Vane's (2005) *Modern Macroeconomics*. While you will not be explicitly evaluated over the material covered in this volume, a few of my lectures will be based on chapters from this book. Additionally, since *Modern Macroeconomics* is a survey of modern macroeconomic thought, it will be a valuable resource for the group project that you will be working on throughout the semester.³ Lastly, for those of you who are considering a graduate degree in economics, I strongly encourage you to master the material in this book *prior* to starting graduate school, especially if you're interested in becoming a macroeconomist.

5. EVALUATION AND GRADING

Your grade in this course consists of weekly quizzes (30%), three problem sets (10%), a group project (20%), and two exams (40%). I will discuss the specific details of these assignments in class.⁴

³ See section 5 for details.

⁴ There will also be opportunities for extra credit that I will discuss in class.

The weekly quizzes will take place every Monday at the beginning of class, and will be based on both the assigned readings for that week and the lectures from the previous week. Consequently, attending class and completing the assigned readings will be essential to successfully completing this course. I will drop your two lowest quiz grades to allow for any unexpected events that prevent you from attending class. There will not be any make-up quizzes – no exceptions.

The problem sets will consist of questions from each chapter in Mankiw’s textbook. These assignments are intended to aid in your understanding of the analytical tools that we will be exploring this semester. Mastering these tools is key to doing well on the examinations. Thus, I strongly encourage you to take these problem sets seriously. I also encourage you to work together on the problem sets. All assignments are due at the beginning of class, and cannot be submitted via email. There will not be any make-up problem sets – no exceptions.

The purpose of the group project is to improve your familiarity with the business cycle theories that we will be exploring this semester. The project will have two components: a research paper and a group debate. Each group will be assigned a different business cycle theory that they must research and defend. The debates will take place during the last week of class, and the research paper will be due the last day of class.

Each exam will consist of multiple choice and true/false questions as well as analytical questions. If you miss the midterm examination for any reason, then the final examination will be worth 40%. In accordance with University policy, if you have three or more exams on the date of the final examination, you may reschedule the final examination. To do so, you must contact me no less than one week prior to the final examination. There will not be any make-up exams – no exceptions.

The grading scale is as follows:

A.....	90%-100%
B.....	80%-89%
C.....	70%-79%
D.....	60%-69%
F.....	<59%

6. SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS

6.1. Week 1: The Science and Data of Macroeconomics

Dates: 8/26, 8/28, 8/30

Required Reading:

- Mankiw, Chapters 1 and 2
- Lucas, [*What Economists Do*](#) (2011)

6.2. Week 2: Production Theory

Dates: 9/2, 9/4, 9/6

Required Reading:

- Mankiw, Chapter 3 and 8

6.3. Week 3: The Determinants of Consumption and Saving

Dates: 9/9, 9/11, 9/13

ASSIGNMENT: Problem Set 1 Distributed 9/9

Required Reading:

- Mankiw, Chapter 16
- Modigliani, [*14th Annual Killian Award Lecture*](#), (1986)

6.4. Week 4: Investment and Say's Law

Dates: 9/16, 9/18, 9/20

Required Reading:

- Mankiw, Chapter 17
- Ludwig von Mises, [*Lord Keynes and Say's Law*](#). (1950)
- Clower, R., & Leijonhufvud, A. *Say's Principle: What It Means and Doesn't Mean*. (1973)

Video (recommended):

- Krugman, [*Austerity is not the answer*](#), 2012 (6min)

6.5. Week 5: The Monetary System and Inflation

Dates: 9/30, 10/2, 10/4

Required Reading:

- Mankiw, Chapters 4 and 5
- Radford, [*The Economic Organization of a P.O.W. Camp*](#). (1945).

Video (recommended):

- [*Milton Friedman on Money and inflation*](#). (10min).

6.6. Week 6: The Open Economy and Midterm Examination

Dates: 10/7, 10/9, 10/11

Required Reading:

- David Hume, [*Of the Balance of Trade*](#) (1752)

ASSIGNMENT: Problem Set 1 Due 10/7

MIDTERM EXAMINATION (on 10/11)

6.7. Week 7: The Open Economy

Dates: 10/10, 10/16, 10/18

Required Reading:

- Mankiw, Chapter 6

*****FALL BREAK: NO CLASS ON 10/14*****

6.8. Week 8: Unemployment and the Labor Market

Dates: 10/21, 10/23, 10/25

ASSIGNMENT: Problem Set 2 Distributed 10/21

Required Reading:

- Mankiw, Chapter 7

- Alchian, *Information Costs, Pricing, and Resource Unemployment* (1969)

6.9. Week 9: Economic Fluctuations, Aggregate Demand and Aggregate Supply

Dates: 10/28, 10/30, 11/1

Required Reading/podcast:

- Mankiw, Chapters 10 and 14
- Sargent, [Rational Expectations](#).
- Alesina, [Alberto Alesina on Fiscal Policy and Austerity](#), 2014 (1h05min)

6.10. Week 10: The IS-LM Model

Dates: 11/4, 11/6, 11/8

Required Reading:

- Mankiw, Chapters 11 and 12
- Krugman, [IS-LMentary](#), 2011

Recommended Reading:

- Snowdon and Vane, Chapter 3

6.11. Week 11: The Mundell-Fleming Model and Monetarism

Dates: 11/11, 11/13, 11/15

ASSIGNMENT: Problem Set 2 Due 11/15

Required Reading/Video:

- Yeager, *A Cash-Balance Interpretation of Depression* (1956)
- [Debate between Milton Friedman and Walter Heller](#). (58 min)

Recommended Reading

- Snowdon and Vane, Chapter 4

6.12. Week 12: Austrian and Real Business Cycle Theories

Dates: 11/18, 11/20, 11/22

ASSIGNMENT: Problem Set 3 Distributed 4/17

Required Reading:

- [Garrison, Time and Money: The Universals of Macroeconomic Theorizing](#) (1984)
- Hoover, [New Classical Macroeconomics](#)

Recommended Reading/video:

- Snowdon and Vane, Chapters 6 and 9
- [Fear the Boom and Bust](#). (7minutes).

6.13. Week 13: Stabilization Policy and Government Debt

Dates: 11/25, [no classes on 11/27 and 11/29]

Required Reading:

- Mankiw, Chapters 18 and 19
- Abrams, [How Richard Nixon Pressured Arthur Burns](#) (2006)
- [Bank of Jamaica Inflation Targeting Campaign 2019](#)

6.14. Week 14: Battle of the Business Cycles

Dates: 12/2, 12/4, 12/6.

ASSIGNMENT: Problem Set 3 Due 12/2

ASSIGNMENT: Research Paper Due 12/2

ASSIGNMENT: Group Debates 12/2, 12/4 and 12/6

*****FINAL EXAM: Friday, December 6*****

7. ADDITIONAL INFORMATION

Occasionally, I may need to update students on class activities and assignments. I will be emailing students at their GMU email address. Students are responsible for checking this email regularly.

8. REFERENCES

- Abrams, B. A. (2006). How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes. *The Journal of Economic Perspectives*, 20(4), 177–188.
- Alchian, A. A. (1950). Uncertainty, Evolution, and Economic Theory. *Journal of Political Economy*, 58(3), 211–221.
- Alchian, A. A. (1969). Information Costs, Pricing, and Resource Unemployment. *Economic Inquiry*, 7(2), 109–128.
- Dynarski, S. (2017, November 22). Laptops Are Great. But Not During a Lecture or a Meeting. *The New York Times*. Retrieved from <https://www.nytimes.com/2017/11/22/business/laptops-not-during-lecture-or-meeting.html>
- Garrison, R. W. (1984). Time and money: The universals of macroeconomic theorizing. *Journal of Macroeconomics*, 6(2), 197–213.
- Hicks, J. R. (1937). Mr. Keynes and the “Classics”; A Suggested Interpretation. *Econometrica*, 5(2), 147–159.
- Higgs, R. (1997). Regime Uncertainty: Why the Great Depression Lasted So Long and Why Prosperity Resumed after the War. *The Independent Review*, 1(4), 561–590.
- Lucas, R. E. (1977). Understanding business cycles. *Carnegie-Rochester Conference Series on Public Policy*, 5, 7–29.
- Lucas, R. E. (1988). On the mechanics of economic development. *Journal of Monetary Economics*, 22(1), 3–42.
- Lucas, R. E. (2011). What Economists Do. *Journal of Applied Economics*, 14(1), 1–4.
- Mankiw, N. G. (2015). *Macroeconomics* (9 edition). New York: Worth Publishers.
- Plosser, C. I. (1989). Understanding Real Business Cycles. *The Journal of Economic Perspectives*, 3(3), 51–77.
- Radford, R. A. (1945). The Economic Organisation of a P.O.W. Camp. *Economica*, 12(48), 189–201.
- Snowdon, B., & Vane, H. R. (2005). *Modern Macroeconomics: Its Origins, Development and Current State*. Cheltenham, UK ; Northampton, MA: Edward Elgar Pub.
- Yeager, L. B. (1956). A Cash-Balance Interpretation of Depression. *Southern Economic Journal*, 22(4), 438–447.