

**ECONOMICS 018/019-01:
QUANTITATIVE INTERMEDIATE MACROECONOMIC
THEORY**

Spring Term 2012.

Call No: 01208 Time Block K+ : MW 4:30–5:45pm. Room: Braker 118.

Professor Yannis M. Ioannides

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Syllabus

Office hours: Mondays, 1:30–3:00pm; Wednesdays, 5:45–6:45pm. Other times by appointment. You are welcome to contact me by email about setting up an appointment to see me at a time other than my office hours. If I might be unavailable during my office hours on some particular day, I will make an announcement about it, in class and on **trunk**. I cannot overemphasize it: you should not hesitate to see me.

I am working for You!

A web site is available for the course: <http://trunk.tufts.edu>. My administration of the class is handled via the web site. Class materials and announcements will regularly be made through the site. Students who are already registered in the class will be able to log in in the usual way. Please check to see whether your email address is correct. I will add new students after they have been admitted to the class. Let me know at once if you cannot log in.

ADMINISTRATIVE ASPECTS

There will be two midterms and a final, scheduled as follows. The midterms will be closed-book, but for the final I will allow *two pages* of notes.

- **The final exam** will take place at the time scheduled by the Registrar, *Wednesday, May 9*, 12:00–2:00 pm. It will count for 45 % of the grade.
- **Midterm # 1** will take place *Thursday* (Monday schedule), February 23. It will count for 20 % of the grade. Monday February 20th is a holiday.
- **Midterm # 2** will take place Wednesday, *April 4*. It will count for 25 % of the grade.
- **Homework**, about 5 in total during the term, will count for 10% of the grade.

Please note the following dates: Monday, February 20, Presidents' birthday observance, *no* class; Substitute Monday's schedule on Thursday, February 23.

Monday, April 16, *no* class (Patriot's Day).

Monday, April 30, *last* class.

March 17 – 25: spring break, *no* classes.

Homework will be assigned periodically and will be graded. The final exam will be cumulative. All deadlines for homework and exam dates will be observed strictly. Homework assignments are due at the end of the class on the assigned date. Late homework will *not* be graded.

Last but not least, it is important for me to get to know as many of you as possible and as quickly as possible. In order to accomplish that, I will designate a number of dates and announce them ahead of time when I will meet groups of you for coffee at the Tower Cafe. Informal gatherings of this type will help me understand how things go in the course and will help you give me regular feedback.

TEXT

The course will be based in part on

Olivier Blanchard, *Macroeconomics*, Pearson Prentice-Hall, Fifth edition with Update, 2011,

which is the latest edition of a modern intermediate text, written by one of the clearest expositors of modern macroeconomics who is a professor at MIT, a leading figure in modern macroeconomics and currently the Chief Economist of the International Monetary Fund. It has been ordered as *required* material for the course. Please note that the publisher maintains a web site for the textbook, accessible at: www.prenhall.com/blanchard. Please try it out! We will make some use of it as we move on in the term. I will supply on several occasions additional materials which updates the textbook.

The course is pitched at a mathematical level that is *higher* than that of *any* intermediate level text. Therefore, I will supply a number of supplementary materials, which will become available on **Trunk** as we move along. Together with the lectures they will define the course.

This is a nuts-and-bolts class that is very rewarding. The students will go away with an increased ability to understand macroeconomic phenomena, as commonly discussed in the financial and popular press, including the *New York Times*, the *Financial Times*, the *Wall Street Journal*, and the *Economist* — a weekly magazine that is read by (almost) all economists — and to reason on matters of macroeconomic policy. All of these publications are available at Tisch and on line. The approach of the course will follow both an eclectic Keynesian view that is grounded on actual facts, and a mainstream neoclassical approach, which is key to understanding certain aspects of the macroeconomy, including long run phenomena, especially economic growth and monetary policy in the long run.

For the best of macroeconomic data, go to *Federal Reserve's Economic Data*,

<http://research.stlouisfed.org/fred2/>

OUTLINE AND READING LIST

My objective is to cover a set of fundamental topics in this class, which emphasize depth and treat it as being more important than breadth, at the intermediate level. As the topics that I plan to cover build closely on one another, we may not be able to cover all of them, and towards the end of the term I may give out a revised, shorter list.

The course would be even more useful if you were to follow macroeconomic and financial news and developments. Naturally, I hope that you will bring questions about them to class, which will help enrich your understanding of institutions and policies. The frightening crisis that we are slowly getting out from provides numerous instances that help highlight macroeconomic issues, and we will be making use of them.

1. **Fundamental concepts, variables, and measures of macroeconomics:** Chapter 2.

Please read Chapter 1 on your own. It should be a straightforward review of Principles of Macroeconomics, which serves as prerequisite for this course.

2. **Goods market and output and income determination in the short run. Short run dynamics.** Chapter 3.

3. **Financial markets.** Chapter 4.

4. **Goods and Financial markets: The IS–LM model.** Chapter 5.

5. **General Equilibrium in an One-period Model of a Closed Economy.**

Ioannides Notes on Trunk.

6. **Long run Growth:** Chapters 10, 11.

Ioannides model on “Neoclassical growth theory.” Available on Trunk.

7. **The labor market, wage and price determination:** Chapter 6.

Ioannides notes on “The Diamond–Mortensen–Pissarides Model of Labor Market Frictions.”

The Beveridge Curve: http://www.bls.gov/web/jolts/jlt_labstatgraphs.pdf

8. **Aggregate supply, aggregate demand, price and output movements, the Natural Rate of Unemployment, and The Phillips Curve:** Chapters 7, and 8.

9. **Okun's Law**, Chapter 9, 185–190.
10. **Expectations: Nuts and Bolts**. Chapter 14
11. **Financial markets and Expectations**. Chapter 15.
12. **Expectations, Consumption and Investment**. Chapter 16.
 Ioannides notes on “Life Cycle Theory of Consumption.”
 Ioannides notes on “Neoclassical Theory of Investment.”
 Ioannides notes on “The Overlapping Generations Model and Savings Behavior.”
 Application: Stock market wealth versus housing wealth
 Background material:
 Case, Karl E., John M. Quigley, and Robert J. Shiller. ”Comparing Wealth Effects: The Stock Market versus the Housing Market”, *Advances in Macroeconomics*, (2005) Vol. 5, No. 1, Article 1. <http://80-www-bepress-com.ezproxy.library.tufts.edu/bejm/advances/vol5/iss1/art1>
 And its update:
 Case, Karl E., John M. Quigley, and Robert J. Shiller. “Wealth Effects Revisited: 1978-2009.” February 2011.
<http://cowles.econ.yale.edu/P/cd/d17b/d1784.pdf>
13. **Expectations, Output and Policy**. Chapter 17.
14. **Macroeconomics in an Open Economy: Openness in Goods and Financial Markets**. Chapters 18 and 19.
15. **Output, the Interest Rate, and the Exchange Rate**. Chapter 20.
16. **Understanding the European Debt Crisis, 2009–**
 Additional materials will be added.
17. **Exchange Rates: Adjustments, Crises, and Regimes**. Chapter 21.
18. **Pathologies: Depressions, Slumps, Hyperinflations, and the Crisis of 2007–**.
 (Parts of) Chapters 22, 23, and 28, plus additional material.
 The liquidity trap and the term structure of interest rates:
 Gauti B. Eggertsson, ”Liquidity Trap,” *The New Palgrave Dictionary of Economics* 2nd ed., 2008, Online.
 Ioannides notes.