

Macroeconomic Theory
ECO 701
Section 1001
MW 4:00 to 5:15 PM
CBC C214

Spring 2016

Text: *Macroeconomics*, eighth edition, Andrew B. Abel, Ben S. Bernanke, and Dean Croushore, Pearson/Addison-Wesley 2014.

**Teaching
Philosophy:**

My philosophy flows from three assumptions about the teaching and learning process. First, the instructor must invest sufficient time to develop an up-to-date, comprehensive, challenging, and accessible course. To fulfill this obligation, the instructor must keep current in the developments in the field, both in research findings and teaching methods. Second, the student must invest sufficient time to learn and absorb the course content. To fulfill this obligation, the student must commit to attend class on a consistent basis, to finish all reading and ungraded homework in a timely manner, and to complete all graded course requirements on time. Third, university students must shoulder the burden for fulfilling their end of the bargain. That is, the instructor must assume that the students are adults, responsible for their own actions and behavior.

**Learning
Objectives:**

Students who successfully complete this course will understand how to use basic macroeconomic models to consider monetary and fiscal policy questions. Those macroeconomic models rely on several aggregate markets -- labor, goods, and asset markets. The analyses will consider both long-run growth and short-run stabilization issues. Further, while much of the discussion focuses on a closed economy, considerable attention is also given to open economy macroeconomic analysis. Moreover, students will construct and apply macroeconomic models; use critical-thinking skills to analyze economic issues; use statistical methods to explain and interpret economic data; and provide evidence of effective writing skills.

Evaluation:

The course grade will include four components – data analyses, problem sets, brief summaries of research articles, and exams. You will have three (3) data analyses and three (3) problem sets during the semester (25 points each). You will also have one (1) journal article to write a brief summary and to rewrite and edit for a second submission (50 points). Finally, you will have a mid-term and (non-cumulative) final (100 points each). Your final grade will be an average of all components (400 points total). The first exam is scheduled for Wednesday, March 16 and the final is scheduled for Monday, May 9 from 6:00-8:00 PM in CBC C214.

- Incomplete Grades:** The instructor can grant an incomplete grade (I) when a student satisfactorily completes all course work up to the withdrawal date of that semester/session but for reason(s) beyond the student's control, and acceptable to the instructor, cannot complete the last part of the course, and the instructor believes that the student can finish the course without repeating it. A student who receives an I is responsible for making up whatever work was lacking at the end of the semester. If the student does not complete course requirements within the time indicated, the student receives a grade of F and the GPA will be adjusted accordingly. Students who are fulfilling an I do not register for the course but make individual arrangements with the instructor who assigned the I grade.
- WebCampus:** This course is a WebCampus course. I will post the course outline, homework assignments, other handouts, and so on at the WebCampus site. You can access this site 24/7, except for scheduled maintenance on the system and unexpected downtimes due to technical glitches. The link to WebCampus is at the following internet address:
<https://webcampus.nevada.edu/webct/entryPage.dowebct>
- Academic Misconduct:** Academic integrity is a legitimate concern for every member of the campus community; all share in upholding the fundamental values of honesty, trust, respect, fairness, responsibility and professionalism. By choosing to join the UNLV community, students accept the expectations of the Academic Misconduct Policy and are encouraged when faced with choices to always take the ethical path. Students enrolling in UNLV assume the obligation to conduct themselves in a manner compatible with UNLV's function as an educational institution. An example of academic misconduct is plagiarism. Plagiarism is using the words or ideas of another, from the Internet or any source, without proper citation of the sources. See the Student Academic Misconduct Policy (approved December 9, 2005) located at: <http://studentconduct.unlv.edu/misconduct/policy.html>.
- Copyright and Fair Use:** The University requires all members of the University Community to familiarize themselves and to follow copyright and fair use requirements. You are individually and solely responsible for violations of copyright and fair use laws. The university will neither protect nor defend you nor assume any responsibility for employee or student violations of fair use laws. Violations of copyright laws could subject you to federal and state civil penalties and criminal liability, as well as disciplinary action under University policies. Additional information can be found at: <http://www.unlv.edu/committees/copyright/>.
- Disabilities:** The UNLV Disability Resource Center (SSC-A 143, <http://drc.unlv.edu/>, 702-895-0866) provides resources for students with disabilities. If you feel that you have a disability, please make an appointment with a Disabilities Specialist at the DRC to discuss what options may be available to you. If you are registered with the UNLV Disability Resource Center, bring your Academic Accommodation Plan from the DRC to the instructor during office hours so that you may work together to develop strategies for implementing the accommodations to meet both your needs and the requirements of the course. Any information you provide is private and will be treated as such. To maintain the confidentiality of your request, please do not approach the instructor in front of others to discuss your accommodation needs.
- Religious Holidays Policy:** Any student missing class quizzes, examinations, or any other class or lab work because of observance of religious holidays shall be given an opportunity during that semester to make up missed work. The make-up will apply to the religious holiday absence only. It shall be the responsibility of the student to notify the instructor within the first 14 calendar days of the course for fall and spring courses (excepting modular courses), or within the first 7 calendar days of the course for summer and modular courses, of his or her intention to participate in religious holidays which do not fall on state holidays or periods of class recess. For additional information, please visit: <http://catalog.unlv.edu/content.php?catoid=6&navoid=531>.

- Tutoring:** The Academic Success Center (ASC) provides tutoring and academic assistance for all UNLV students taking UNLV courses. Students are encouraged to stop by the ASC to learn more about subjects offered, tutoring times and other academic resources. The ASC is located across from the Student Services Complex (SSC). Students may learn more about tutoring services by calling (702) 895-3177 or visiting the tutoring web site at the following internet address: <http://academicsuccess.unlv.edu/tutoring/>.
- UNLV Writing Center:** One-on-one or small group assistance with writing is available free of charge to UNLV students at the Writing Center, located in CDC-3-301. Although walk-in consultations are sometimes available, students with appointments will receive priority assistance. Appointments may be made in person or by calling 895-3908. The student's Rebel ID Card, a copy of the assignment (if possible), and two copies of any writing to be reviewed are requested for the consultation. More information can be found at: <http://writingcenter.unlv.edu/>
- Rebelmail:** By policy, faculty and staff should e-mail students' Rebelmail accounts only. Rebelmail is UNLV's official e-mail system for students. It is one of the primary ways students receive official university communication such as information about deadlines, major campus events, and announcements. All UNLV students receive a Rebelmail account after they have been admitted to the university. Students' e-mail prefixes are listed on class rosters. The suffix is always @unlv.nevada.edu.
- Library:** Students may consult with a librarian on research needs. For this class, the subject librarian is https://www.library.unlv.edu/contact/librarians_by_subject. UNLV Libraries provides resources to support students' access to information. Discovery, access, and use of information are vital skills for academic work and for successful post-college life. Access library resources and ask questions at <https://www.library.unlv.edu/>.
- Final Exams:** The University requires that final exams given at the end of a course occur at the time and on the day specified in the final exam schedule. See the schedule at: <http://www.unlv.edu/registrar/calendars>.

Course Outline and Readings:

- I. Introduction (2 weeks – January 21, 26, & 28)**
- A. Method of Analysis
 - B. Measurement Issues
 - 1. Trends and Cycles
 - 2. National Income Accounting
 - 3. Saving and Investment
 - 4. Price Level and Interest Rates
 - 5. Employment and Unemployment

Readings:

1. Abel, Bernanke, and Croushore (ABC), Chapters 1, 8, 2, 5 (pp. 168-181), and 3 (pp. 87-95).
2. Nelson and Plosser, "Trends and Random Walks in Macroeconomic Time Series: Some Evidence and Implications," *Journal of Monetary Economics*, September 1982.
3. Perron, "The Great Crash, the Oil Price Shock, and the Unit Root Hypothesis," *Econometrica*, November 1989.
4. Moore and Shiskin. "Indicators of Business Expansions and Contractions," National Bureau of Economic Research, 1967.
5. Dua and Miller, "Forecasting and Analyzing Economic Activity with Coincident and Leading Indexes: The Case of Connecticut," *Journal of Forecasting*, December 1996.
6. Fang and Miller, "The Great Moderation and the Relationship between Output Volatility and Growth," *Southern Economic Journal*, January 2008.
7. Canarella, Fang, Miller, and Pollard, "Is the Great Moderation Ending? UK and US Evidence," *Modern Economy* May 2010.

8. Fang and Miller, "Is the Great Moderation Good or Bad?" posted in WebCampus.
9. Miller, "CBER-DETR Nevada Coincident and Leading Employment Indexes: Construction Method." Posted in WebCampus.

II. Microeconomics of Macroeconomics (2½ weeks – February 2, 4, 9, & 11)

- A. Labor Market
 1. Demand for Labor
 2. Supply of Labor
 3. Market Equilibrium
- B. Goods Markets
 1. Consumption Demand
 2. Investment Demand
 3. Saving Equals Investment
- C. Asset Markets
 1. Demand for Money
 2. Supply of Money
 3. Market Equilibrium
4. Financial Crisis
 1. Typical financial crisis recession

Readings:

1. ABC, Chapters 3 (pp. 60-86), 4, 4A, 5 (pp. 181-198), 7, and 14 (pp. 534-546).
2. CBO Memorandum, "Labor Supply and Taxes." January 1996
3. Friedman, *The Theory of the Consumption Function*, Princeton University Press, 1957.
4. Ando and Modigliani, "The 'Life-Cycle' Hypothesis of Saving: Aggregate Implication and Tests," *American Economic Review*, March 1963.
5. Hall, "Stochastic Implications of the Life Cycle--Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, December 1978.
6. Ireland, "Using the Permanent Income Hypothesis for Forecasting," Federal Reserve Bank of Richmond *Economic Quarterly*, Winter 1995
7. Witte, "The Micro-Foundations of the Social Investment Function," *Journal of Political Economy*, October 1963.
10. Jorgenson, "Capital Theory and Investment Behavior," *American Economic Review*, May 1963.
9. Baumol, "The Transactions Demand for Cash: An Inventory Theoretic Approach," *The Quarterly Journal of Economics*, November 1952.
10. Tobin, "The Interest Elasticity of the Transactions Demand for Cash," *The Review of Economics and Statistics*, August 1956.
11. Tobin, "Liquidity Preference as Behavior Towards Risk," *Review of Economic Studies*, February 1958.
12. Friedman, "The Quantity Theory of Money: A Restatement," in Friedman, *Studies in the Quantity Theory of Money*, 1956.
13. Miller, "Financial Innovation, Depository-Institution Deregulation, and the Demand for Money," *Journal of Macroeconomics*, Summer 1986.
14. Miller, "Disequilibrium Macroeconomics, Money as a Buffer Stock, and the Estimation of Money Demand," *Journal of Macroeconomics*, Fall 1990.
15. Miller, "Monetary Dynamics: An Application of Co-Integration and Error-Correction Modeling," *Journal of Money, Credit and Banking*, May 1991.
16. Reinhart and Rogoff, "The Aftermath of Financial Crises," NBER Working Paper No. 14656, January 2009.
17. Reinhart and Rogoff, "Growth in a Time of Debt." NBER Working Paper No. 15639, January 2010.
18. Keister and McAndrews, "Why Are Banks Holding So Many Excess Reserves?" Federal Reserve Bank, New York, (http://www.newyorkfed.org/research/staff_reports/sr380.html).

III. Long-Run Growth (1½ weeks – February 18, 23, & 25)

- A. Determinants of Economic Growth
 - 1. Labor
 - 2. Capital
 - 3. Technology
- B. Potential GDP
- C. Neo-Classical Growth Models
 - 1. Solow Model
 - 2. Optimal Growth Model
 - 3. Overlapping Generations Model
- D. Endogenous Growth Models
- E. Convergence Hypothesis
 - 1. Absolute Convergence
 - 2. Conditional Convergence

Readings:

1. ABC, Chapter 6.
2. Mankiw, "The Growth of Nations," *Brookings Papers on Economic Activity*, (1) 1995 and Comments by Phelps and Romer.
3. Barro and Sala-i-Martin, "Convergence" *Journal of Political Economy*, April 1992.
4. Miller and Upadhyay, "Total Factor Productivity and the Convergence Hypothesis," *Journal of Macroeconomics*, June 2002
5. Miller and Russek, "Fiscal Structures and Economic Growth: International Evidence," *Economic Inquiry*, July 1997.
6. Miller, "A Note on Cross-Country Growth Regressions," *Applied Economics*, August 1996.

IV. Generic Macroeconomic Model (2 weeks – March 2, 4, 9, & 11)

- A. Aggregate Demand (AD)
 - 1. Goods market Equilibrium (IS)
 - 2. Money Market Equilibrium (LM)
- B. Aggregate Supply (AS)
 - 1. Short-Run Aggregate Supply (SRAS)
 - 2. Long-Run Aggregate Supply (LRAS)
- C. Macroeconomic Equilibrium
 - 1. Long- and Short-Run Equilibrium

Readings:

1. ABC, Chapter 9, 9A, and 9B.

V. Alternative Interpretations of Generic Macroeconomic Model (3 weeks – March 16, 18, 23, & 25; April 6, & 8)

- A. Classical Interpretation
 - 1. Misperceptions Model and SRAS
 - 2. Long- and Short-Run Equilibrium
- 1. Keynesian Interpretation
 - 1. Sticky Wages and Prices
 - 2. Long- and Short-Run Equilibrium
- 2. Financial Crisis
 - 1. Shadow banking and a traditional bank run
 - 2. Role of debt in macroeconomic model
 - 3. Zero-interest-rate bound

Readings:

1. ABC, Chapters, 10, 11, 11A, 11B, and 11C.
2. Eggertsson and Krugman, Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo approach, http://www.princeton.edu/~pkrugman/debt_deleveraging_ge_pk.pdf

VI. Unemployment and Inflation (1 week – April 13 & 15)

- A. Expectations Augmented Phillips Curve
 1. Imperfect Information and Rational Expectations
 - a. Lucas Supply Curve
 - b. Friedman-Phelps Phillips Curve
 2. Policy Implications
 - a. Anticipated Versus Unanticipated Policy
- B. Dynamic IS-LM-AS Model without LM Curve
 1. Inflation replaces price level
 2. Monetary policy reaction curve replaces money market equilibrium (LM Curve)

Readings:

1. ABC, Chapter 12.
2. Lucas, "Expectations and the Neutrality of Money," *Journal of Economic Theory*, April 1972.
3. Lucas, "Some International Evidence on Output-Inflation Tradeoffs," *American Economic Review*, June 1973.
4. Friedman, "The Role of Monetary Policy," *American Economic Review*, March 1968.
5. Phelps, "Money Wage Dynamics and Labor Market Equilibrium," *Journal of Political Economy*, July-August 1968.
6. Sargent and Wallace, "Rational Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule," *Journal of Political Economy*, April 1975.
7. Barro, "Rational Expectations and the Role of Monetary Policy," *Journal of Monetary Economics*, January 1976.
8. Barro, "Unanticipated Money, Output, and the Price Level in the United States," *Journal of Political Economy*, August 1978.
9. Romer, "Keynesian Macroeconomics without the LM Curve." *Journal of Economic Perspectives*, Spring 2000.

VII. Open Economy Macroeconomic Model (2 weeks – April 20, 22, 27 & 29)

- A. Exchange Rate
 1. Purchasing Power Parity
 2. Interest Rate Parity
- B. Exchange Rate Determination
 1. Short-Run Equilibrium
 2. Long-Run Equilibrium
- C. Macroeconomic Policy
 1. Flexible Exchange Rates
 2. Fixed Exchange Rates

Readings:

1. ABC, Chapter 13.

VIII. Macroeconomic Policy Analysis (1 week – May 4 & 6)

- A. Monetary Policy
 1. Central Bank Policy
 2. Rules Versus Discretion
- B. Fiscal Policy

1. Government Budget Deficits and Debt
2. Government Deficits and Inflation

2Readings:

1. ABC, Chapters 14 (547-575) and 15.
2. Poole, "The Optimal Choice of Monetary Policy in a Simple Stochastic Macro Model," *The Quarterly Journal of Economics*, May 1970.
3. Kydland and Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy*, June 1977.
4. Lucas, "Economic Policy Evaluation: A Critique," in Brunner and Meltzer, eds. *The Phillips Curve and Labor Markets, Carnegie-Rochester Conference Series*, 1, Amsterdam: North Holland, 1976.
5. Friedman, B., "Targets, Instruments, and Indicators of Monetary Policy," *Journal of Monetary Economics*, October 1975.
6. Demopolous, Katsimbris, and Miller, "Monetary Policy and Central-Bank Financing of Government Budget Deficits," *European Economic Review*, July 1987.
7. Taylor, "Discretion Versus Policy Rules in Practice," *Carnegie-Rochester Conference Series on Public Policy* 39, 1993.
8. McCallum, "Recent Developments in the Analysis of Monetary Policy Rules," Federal Reserve Bank of St. Louis *Review*, November/December 1999.
9. Miller and Russek, "Fiscal Structures and Economic Growth: International Evidence," *Economic Inquiry*, July 1997.
10. Ahking and Miller, "The Relationship Between Government Deficits, Money Growth, and Inflation," *Journal of Macroeconomics*, Fall 1985