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Spring 2014
MW 2:45 pm

CMC Office Hours: MW 4-5pm
CGU Office Hours: T 3-4pm
and by appointment

CMC Econ 102
Intermediate Macroeconomics
BC 36

Textbook: N. Gregory Mankiw. *Macroeconomics*, 8th edition, Worth Publishers 2013.

Course Overview and Objectives:

Macroeconomics deals with the aggregate behavior of economies and focuses on variables such as inflation, unemployment, growth, recessions and booms, money, credit, interest rates, and exchange rates. There is considerably more disagreement among economists about the best economic theories for macroeconomics than for microeconomics, in considerable part because more of microeconomics deals with the comparative statics of how factors such as taxes or shifts in costs and demand change equilibrium prices and quantities, while much of macroeconomics deals with the more difficult issue of economic dynamics, the time path of the movement of financial markets and the aggregate economy from one position to another.

The perspective of the course is that none of the major macroeconomic theories advocated by mainstream economists are totally right or totally wrong, and that each gives us useful insights into how the macro economy responds to various types of shocks and economic policies over different time periods.

A major objective of the course is for students to develop a better understanding of the key debates about the behavior of the economy and appropriate government policies with respect to the Global Financial Crisis, how economies recover, the U.S. fiscal problem, and a number of important historical economic episodes such as the hyperinflations in Europe in the inter-war period and Latin America in the 1980s and 90s, the Great Depression of the 1930s, and the stagflation of the 1970s.

While the primary focus will be on the US economy, we will also pay considerable attention to lessons from other countries and the ways in which economics affect each other through the interdependent global economy. This is illustrated by the global economic and financial crises of 2008 and 2009 that started in the US subprime mortgage market in 2007 and spread to much of the world.

While there will be some math and curve shifting, the major focus will be on the major theories and concepts of macroeconomics, how they interrelate, and their implications for economic policy and the behavior of the economy. In other words, the emphasis is on seeing how economic analysis can help us understand the behavior of the real world. We will also pay some attention to how short run political pressures can sometimes generate incentives to pursue policies that increase rather than reduce macroeconomic stability.

In addition to the required readings and assignments, students are expected to keep up with the current macroeconomic and financial developments and policy debates. The Financial Times, New York Times, Wall Street Journal, and The Economist are especially recommended for this purpose. Current developments will frequently be discussed in class.

Experience shows that it is most effective to read the assigned material before class and then again after the class. Before each chapter I will offer comments in class on what to emphasize in your reading and study. It is important to keep up with the material since much of the analysis is cumulative and it's easy to get lost if you get behind.

Notes for several topics, a number of practice questions and some answer keys are available on Sakai.

There will be a midterm, a comprehensive final and a optional short policy paper. The terms of reference for the paper will be discussed in class. It would be due by the next last week of classes. Some additional readings likely will be added as the course progresses. Guidance of what students should emphasize in their study of each chapter will be provided as the course progresses.

Course Outline: (Readings with “*” are required)

1. Overview of major Macroeconomic Issues of Policy and Analysis in light of the recent crisis

A. Overview of the Scopes of Macroeconomics and the Current Contravacities

*Mankiw, Ch. 1 and preface section on the book's approach.

Cochrane, J. “How did Paul Krugman Get It So Wrong?” (For copies of this, google John H. Cochrane.)

Krugman, P. (2009) “How Did Economists Get It So Wrong?” *New York Times*, September 2.

Willett, T (2010) “Some Lessons for Economists from the Financial Crisis” *Indian Growth and Development Review No. 2*, pp. 186-208

B. A Brief Overview of the Causes and Consequences of the Global Financial Crisis

*Ch. 20, section 2

Kenneth Rogoff and Carmen Reinhart, *"This Time Is Different"*, Princeton University Press.

Willett, T (2012) "The Role of Defective Mental Models in Generating the Global Economic Crisis", *Journal of Financial Economic Policy*, Jan 2012.

C. The Fundamental Macroeconomic Identities and Data

*Ch. 2

David Wessel, *"Red Ink: Inside the High-Stakes Politics of the Federal Budget"*, Crown Business 2012.

I. Classical Theory Macroeconomies - for the Long Run

A. The Real Economy:

*Ch 3

*TW "Notes on Ch 3 and Ch 5"

*More on the Consumption Function: Ch 16 section 1-4

B. The Medium Term Outlook for the US Economy

*Mankiw, "The Growing Gap Between Rich and Poor", Page 62

*Mankiw, "The Worldwide Slowdown in Economic Growth", Page 251-253

Robert Gordon, "Is US Economic Growth Over?", NBER Working Paper No. 18315, August 2012

Stepen D. King, *When the Money Runs Out: The End of Western Affluence*. Yale University Press. 2013.

Tyler Cowen, *Average Is Over: Powering America beyond the Age of the Great Stagnation*, Dutton Adult, 2013

C. Money and Inflation

*Ch 4-5

*TW “Notes on Money and Inflation”

*TW “Notes on Open Economy Analysis IS-LM”

*Ch 6

D. Unemployment

*Ch 7

II. The Macroeconomy in the Short Run – The Keynesian and Monetary Synthesis.

A. Overview of The AS-AD Model: Ch 10

B. Giving More Structure: The IS-LM Model of Monetary and Fiscal Policy:

*Ch 11 and Ch 12

C. Adding Short-run Inflation – Unemployment Relationships: Ch 14

D. Open-economy Considerations:

*Ch 13

*TW “Notes on Doing Open Economy IS-IM Analysis”

III. Current Macroeconomic Policy Issues

A. Stabilization Policy: Ch 18

B. Budget Issues: Ch 19

C. More on the Financial Crisis and Financial Reform:

*Reread Ch 20

*Willett, T “The Role of Defective Mental Models in Generating the Global Financial Crisis”, *Journal of Financial Economic Policy*, Jan 2012

*Willett, T (2010) “Some Lessons for Economists from the Financial Crisis”, *Indian Growth and Development Review No. 2*, pp. 186-208

Andrew Lo, “Reading About the Financial Crisis”, *Journal of Economic Literature*, 2012

Willett, Liang and Zhang (2010) “The Slow Spread of the Global Financial Crisis”, *Journal of International Commerce, Economics and Policy*, 2010.

Many books have appeared on the Global Financial Crisis. A number of these are reviewed in Andrew Lo (from page 4). Two of the best books are

Alan Blinder, *After the Music Stopped*, Penguin Press HC, 2013

And

Menzie Chinn and Jeffrey Frieden, *Lost Decades: The Making of America's Debt Crisis and the Long Recovery*, W. W. Norton & Company, 2011, a much shorter treatment that is available in paperback.

An excellent book on financial sector problem and reform is

Anat Admati and Martin Hellwig, *The Bankers' New Clothes: What's Wrong with Banking and What to Do about It*, Princeton University Press, 2013.

On the euro crisis see the analysis and reference in

Willett and Nancy Srisorn, "The Political Economy of the Euro Crisis: Cognitive Biases, Faulty Mental Models, and Time Inconsistency.", Special Issue on the euro crisis, *Journal of Economics and Business* (forthcoming).

And

David Marsh, *Europe's Deadlock: How the Euro Crisis Could Be Solved - And Why It Won't Happen*, Yale University Press, 2013.

IV. Long Run Economic Growth

*Skim Ch 8 and Ch 9.

*Jeffrey Sachs review of Daron Acemoglu and James A. Robinson "Why Nations Fail", *Foreign Affairs*, 2012