

Business 33040: Macroeconomics

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Office Hours: By Appointment (available to answer questions via email).

Course Materials:

- (1) A course packet of readings which are not online (Required)
- (2) A subscription to the Economist (Required)
- (3) Text: Abel, Bernanke, and Croushore, Macroeconomics, Addison Wesley, 6th edition, 2006. (Required)

Course Objective:

This course is designed to introduce students to classic macroeconomic issues such as growth, inflation, unemployment, interest rates and exchange rates, technological progress, and budget deficits. The course will provide a unified framework to address these issues and to study the impact of different policies, such as monetary and fiscal policies, on the aggregate behavior of individuals. These analytical tools will be used to understand the recent experience of the United States and other countries and to address how current policy initiatives affect their macroeconomic performance.

A Note on Course Materials

The bulk of course materials will come from three sources: the lectures, the course readings and the textbook. I will also make available some supplemental lecture notes on my web page. These notes will be integration to the textbook and will give a solid framework for the lectures, but are by no means a substitute for the lecture. The lectures of the course will describe important empirical regularities about macroeconomics in order to help identify key questions, to guide model-building efforts, to evaluate the usefulness of the economic models, and/or to provide perspective on major economic developments.

The course readings come in two forms. About 20% of the readings are found in a course pack. These readings come from a variety of sources. The remaining readings come from the Economist. It is much more cost efficient for you to buy a subscription to the economist to access these readings online than for me to include the readings in the course pack (the copy-write fees on these articles far exceed the subscription to the Economist). If you do not want to buy a subscription to the Economist, you can use the GSB's subscription. However, your online access will be limited to only GSB computers. See my course web page for how to access the GSB's subscription. After each lecture, I will indicate which readings to focus on for the following week. I expect you to have completed the pre-course readings prior to week 1. Like the lecture notes, the course pack readings are not a substitute for the lectures.

How to Succeed in the Course

To succeed is simple: Come to class, follow the lectures and do all the readings!

Weekly Quizzes:

I am teaching 3 sections this term. They meet on Tuesday and Thursday at 1:30 p.m. on campus and on Tuesday at 6:00 p.m. at the Gleacher Center. Each class, I will give a short 10-15 minute (usually true/false) quiz covering the material from the previous week - including the readings. I will drop your **lowest 2 quiz grades** (no additional exceptions – I will only drop 2 quizzes). Quizzes will always take place at the **BEGINNING** of class.

Course Grade (and grading policies):

- 30% Quizzes
- 70% Midterm and Final (Midterm counts once, final counts twice - take the highest two of those three grades and count 35% each – i.e., the lowest of those three grades is dropped).

The first midterm will occur during week 6 and will last about 2 hours. The exam time for all students (both campus and evening) will be two hours. If you cannot make these exam times and you want to take the midterm, you should not take my class. **No alternate arrangements will be made.**

Given my grading system above, you need not take the midterm (i.e., the midterm is optional). If you do not take the midterm, 70% of your course grade will be applied to the final. But, I strongly suggest you take the midterm and take it seriously. The midterm is easier than the final. That is my goal. I do not normalize the means of the midterm and final when computing the course average. I want to reward those who take the midterm and take the midterm seriously.

Any Quiz/Exam for which there is a re-grade request must be done within 7 days after I return the exam to you. The request for re-grade **MUST** be done in writing and attached to the exam when submitting the exam for a re-grade. The request must include a description of what the problem is and why you think the exam should be graded differently. In such cases, I will re-grade the whole exam – not just the question you identified.

Final

The exam times for the final are set by the GSB and not me. I **NEVER** offer alternate final times. You must be able to make the final time for one of the three sections if you enroll in my course.

Review Sessions

Two review sessions will be offered, one on the Friday before the midterm and one on the Friday before the final.

Communication

On occasion, I will post email questions from students and my answers to these questions. I will discuss the questions that I think lots of students have. Hopefully, this will be an efficient way to

disseminate information and review core material from the course. All student identifiers will be removed when I post the questions.

Note: If you do not want your question posted, you can explicitly state that in any emails you send.

Additionally, I will tend to only answer email questions 2 days a week. We will set these days as the class progresses. Tentatively, I will plan on allocating Monday mornings and Thursday mornings for responding to emails.

Honor Code

Even if not explicitly stated on each test and quiz, the honor code is always in effect. By taking this course, you explicitly pledge your honor that you will not cheat (or help others to cheat) in any way on the quizzes/exams. Any violations will be punished to the greatest extent allowed.

Course Outline/Reading List

The articles listed are required reading. Readings marked with a (*) can be found in the course pack. All other readings can be found in the online version of the *Economist* (see course web page for information). Below, I list the tentative schedule of topics. This is the order in which we will be covering material in this class. It is tentative in the sense that some lectures are a little longer and may extend into the following class, while others are shorter, meaning I will introduce a new topic during that week's lecture. After each lecture, I will tell you for which readings you will be responsible.

Topic 0: *Getting in the Mood for Macro!*

Pre-Course Readings (These are the readings you should do prior to week 1.) **Goal:** To frame the issues of the course via a few short articles from the popular press. We will explore many of the details of these articles throughout the course.

I. Overview of Macroeconomics

1. Size Does Matter: In Defense of Macroeconomics* (Paul Krugman: 7/9/1998)
2. Baby Sitting the Economy* (Paul Krugman: 8/13/1998)
3. Why Aren't We All Keynesians Yet?* (Paul Krugman: 8/3/1998)

II. A Brief History of Economic Time: Economic Landscape Late 1990's-2006 (Historical Expansions in U.S.? The New Economy Fizzles Out? Soft Landings? U.S. Recessions? A Double Dip? Where's the Jobs? Oil Shocks? Inflation? Housing Bubble Bursts?)

4. How Real is the New Economy? (Economist: 7/24/1999)
5. Unwelcome Numbers (Economist: 8/3/2002)
6. Poised for Growth? (Economist: 6/14/2003)
7. Losing its Way (Economist: 8/14/2004)
8. By the Numbers (Economist: 8/13/2005)
9. Gimme Shelter* (in course pack) (Economist: 8/26/2006)

III. The current crisis

10. When fortune frowned (Economist: 10/9/2008)
11. A spent force (Economist: 11/16/2008)

IV. Economists and Politics

12. Not Exactly Major League (search major league) (Economist: 3/19/2005)
13. Paulson to the Rescue (Economist: 6/3/2006)
14. Will the Bail-Out Work? (Economist: 10/3/2008)

V. Macroeconomic Modeling

15. Big Questions and Big Numbers (Economist: 7/15/2006)

Topic 1: Introduction to Macro Data

Chapters 1, 2, and 3.5 from Text.

I. The Difficulty in Measuring Economic Variables

A. Difficulty in Measuring Prices

- 16. Fighting America's Inflation Flab (Economist: 10/7/2000)
- 17. Feeling the Heat (Economist: 6/24/2006)

B. Difficulty in Measuring Output/Output Growth

- 18. Economic Growth* (Brad De Long)
- 19. Leading Us Astray? (Economist: 4/8/2006)

C. Difficulty in Measuring Unemployment

- 20. It's The Taking Part That Counts (Economist: 7/30/2005)

D. Difficulty Measuring Well Being

- 21. Grossly Distorted Picture (Economist: 2/11/2006)

E. Difficulty Assessing Recessions

- 22. Redefining Recession (Economist: 9/11/2008)

II. The Yield Curve

- 23. The Long and the Short of It (Economist: 1/7/2006)

Topic 2: Production, the Labor Market and Economic Growth

Chapters 3, 6.1 and 6.3 (skim 6.2 - do not worry about the math) from Text

I. Production and Labor Markets

- 24. Be Productive - Hit the Beach* (Newsweek)
- 25. A Strange Recovery (Economist: 8/9/2003)
- 26. The Land of Leisure (Economist: 2/4/2006)

II. Growth in the New Economy

- 27. Performing Miracles (Economist: 6/17/2000)
- 28. To These, the Spoils (Economist: 5/11/2002)
- 29. The New "New Economy" (Economist: 9/13/2003)

III. Productivity and Regulation

- 30. Taped (Economist: 10/7/2006)

Topic 3: Consumption, Saving, and Investment

Chapters 4.1, 4.2 and Appendix 4.A from Text

I. Consumption/Savings

- 31. Consumers to the Rescue? (Economist: 4/7/2001)
- 32. A Future Meltdown? (Economist: 9/4/2004)
- 33. The Shift Away from Thrift (Economist: 4/9/2005)

II. Investment

- 34. Investigating Investment (Economist: 7/18/1998)
- 35. From Investment Boom to Bust (Economist: 3/3/2001)

Topic 4: Fiscal Policy

Chapter 15 (skip 15.4) and 9.2 from Text

I. Government Savings

- 36. Coping With Surpluses (Economist: 5/20/2000)
- 37. A Decade of Deficits (Economist: 6/22/2002)
- 38. The Money Comes Pouring In (Economist: 7/15/2006)

II. Taxes

- 39. The Case for Flat Taxes (Economist: 4/16/2005)

III. Supply Side Economics

- 40. Europe Isn't Working (Regulation) (Economist: 4/5/1997)
- 41. Supply-Side Virus Strikes Again * (Paul Krugman: 8/15/1996)

IV. Fiscal Policy in Action

- 42. Why the War Against Terror Will Boost the Economy* (Robert Barro: 11/5/2001)
- 43. Bush expects deficit to double* (FT: 02/05/2008)
- 44. The doctors' bill (Economist: 9/25/2008)

Topic 5: Introduction into Money/Federal Reserve Policy

Chapters 7, 9.3, 14.1 and 14.2 from Text

I. Monetary Basics

- 45. Some Monetary Facts* (McCandless and Weber)
- 46. The Importance of an Asymmetric Directive* (Thornton)
- 47. Vulgar Keynesians* (Krugman)
- 48. Blocked Pipes (Economist: 10/02/2008)

II. Monetary Policy In Action

- 49. What the Fed Can't Do* (Robert Barro: 8/19/1994)
- 50. A Blunt Tool (Economist: 6/30/2001)
- 51. Haughty Indifference or Masterly Inactivity? (Economist: 7/16/2005)
- 52. US banks quietly borrow \$50bn from Fed via new credit facility* (FT: 02/19/2008)
- 53. A Monetary Malaise (Economist: 10/9/2008)

Topic 6: Inflation and Unemployment in the Short Run (Putting it All Together)

Chapters 8-11 from Text

I. A Look at Recessions

- 54. Even Fed's Greenspan is Fallible When Trying to Predict a Recession*
- 55. The Kiss of Life? (Economist: 4/21/2001)
- 56. Bernanke's bounty (Economist: 10/22/2007)

II. Why We Care about Inflation

- 57. A Good Word for Inflation (the benefits of inflation?)* (Krugman)
- 58. Loads of Money (German Hyperinflation) (Economist: 12/31/1999)

III. Should We Care About Deflation?

- 59. Should Greenspan Be Worrying About Deflation?*(Greg Mankiw: 12/7/1998)
- 60. Hear that Hissing Sound? (Economist: 5/17/2003)

IV. Shifts in Aggregate Supply: Technology Shocks

- 61. A Thinkers' Guide (Economist: 4/1/2000)

V. Shifts in Aggregate Supply: Oil Shocks

- 62. Unstoppable? (Economist: 8/21/2004)
- 63. Counting the Cost (Economist: 8/27/2005)
- 64. Running out of gas (Economist: 9/11/2008)

Topic 7: A Deeper Look at Policy in Action

Chapter 12 and 14.3 from Text

I. A Current Policy Discussion

- 65. Cursed by Lagging Perceptions (Economist: 6/12/2004)
- 66. Overflowing (Economist: 3/13/2004)

II. The Inflation/Unemployment Tradeoff

- 67. What Happened to the Phillips Curve* (Brad DeLong)
- 68. Curve Ball (Economist: 9/30/2006)
- 69. Grim Expectations (Economist: 6/26/2008)

III. Monetary Rules

- 70. Money Rules (Economist: 10/24/1998)

IV. Putting it all Together

- 71. A Nasty Whiff of Inflation (Economist: 9/24/2005)
- 72. Between Bears and Hawks (Economist: 5/13/2006)

Topic 8: Special Topics

I. The Current Financial Crisis

- 73. Confidence Trick (Economist: 9/22/2007)
- 74. When to bail out (Economist: 10/4/2007)
- 75. Diamond and Kashyap on the Recent Financial Upheavals* (NYT: 10/20/2008)
- 76. Lessons from a “Lost Decade” (Economist: 8/21/2008)
- 77. 1929 and All That (Economist: 10/2/2008)
- 78. Not Yet the Last Resort (Economist: 10/9/2008)

II. A Primer on Japan in the 1990s.

- 79. Chronic Sickness (Economist: 6/2/2001)
- 80. After the Flood (Economist: 3/11/2006)
- 81. Land of the Rising Price (Economist: 8/17/2008)

IV. Housing and the Macroeconomics

- 82. In Come the Waves (Economist: 6/8/2005)
- 83. Houses Built on Sand (Economist: 9/13/2007)
- 84. Home Truths (Economist: 9/7/2008)

Topic 9: The International Economy

Chapter 5 and 13 from Text

- 85. The passing of the Buck? (Economist: 12/4/2004)
- 86. The domino effect (Economist: 7/3/2008)
- 87. Inflated claims (Economist: 8/14/2008)