

33040 MACROECONOMICS – Fall 2011

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COURSE OBJECTIVE:

This course is designed to introduce students to classic macroeconomic issues such as economic growth, unemployment, inflation, interest rates, international capital flows, exchange rates, 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 the economy. The analytical tools developed in class will be used to understand the recent experience of the United States and of the world economy and to discuss current policy debates.

- COURSE MATERIAL:**
- (1) A course packet of readings which are not online (Required)
 - (2) A subscription to the Economist (Required)
 - (3) Textbook: Abel, Bernanke, and Croushore, “Macroeconomics”, Addison Wesley, 7th edition, 2010 (Required)

NOTE ON COURSE MATERIAL:

The bulk of course materials will come from three sources: lecture notes (slides), course readings, and the textbook. For some topics, I will also make available some supplemental lecture notes on my web page. The lectures will start from basic facts about the economy in order to identify key questions; we will then develop simple economic models to address these questions; finally, we will use facts and models to discuss a number of topics of current interest.

The course readings come in two forms. About 20% of the readings come from a variety of sources and are found in the course pack. The rest of the 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 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 Booth's subscription. However, your online access will be limited to Booth computers. After each lecture, I will indicate which readings to focus on for the following week. Please, complete the pre-course readings prior to week 1.

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 Friday at 1:30 p.m. on campus and at 6:00 p.m. at the Gleacher Center and on Saturday at 1:30 p.m. at the Gleacher Center. At the beginning of each class, I will give a 10-15 minute quiz covering the material from the previous week – readings included. You can take the quizzes in any of my sessions. In computing the final grade, **I will drop your two lowest quiz grades** (if you miss a quiz, it will count towards your quota of dropped grades – I will not schedule make-ups).

COURSE GRADING POLICY:

30% Quizzes

70% Midterm and Final

The midterm counts once, the final counts twice. Take the highest two of these three grades and count 35% each – i.e., the lowest of these three grades is dropped.

MIDTERM:

The midterm will take place in the first two hours of class in week 6. The exam time for all students (campus, evening, and week-end) is two hours. You can take the exam in any of my session. 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 the grading policy 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 given by the final. However, I strongly

suggest you take the midterm. The midterm is easier than the final. I will not normalize the means of the midterm and final when computing the course average, as I want to reward those who take the midterm.

FINAL:

The exam times for the final are set by Chicago Booth and not by me. **I will not offer alternate final times.** You must be able to make the final time for one of the three sections I teach if you enroll in my course.

RE-GRADING:

Any quiz/exam for which there is a re-grade request must be done within seven days after I return the exam to you. The request for re-grade must be 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.

REVIEW SESSIONS:

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

COMMUNICATION:

I will be happy to answer questions on the course material by email. However, I will typically concentrate email answering on Wednesday morning and Thursday morning (except for urgent communications).

On occasion, I will post some of the questions received—with my answer—on the course website. Hopefully, this will be an efficient way to disseminate information. Student identifiers will be removed if I post a question (if you do not want your question posted, just say so in your email.)

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 AND READING LIST

The articles listed are required readings. Articles marked with a (*) can be found in the course pack. All other articles can be found in the online version of the *Economist*. Below, I list the schedule of topics. This is the order in which we will be covering material in this class. Topics do not coincide exactly with lectures, as some topics are a bit longer and may extend into more than one lecture. After each lecture, I will email you the relevant readings for next week's quiz.

Topic 0: Getting in the Mood for Macro

Pre-Course Readings: these are the readings you should do prior to week 1. The idea is to frame the issues of the course via a few short articles from the press. We will explore many of the details of these articles throughout the course.

I. *From the past...*

1. Unwelcome Numbers (Economist: 8/3/2002)
2. Losing its Way (Economist: 8/14/2004)
3. Gimme Shelter (Economist: 8/26/2006)

II. *The recent crisis*

4. When fortune frowned (Economist: 10/9/2008)
5. Damage Assessment (Economist: 5/14/2009)

IV. *Economists and Politics*

6. Big Questions and Big Numbers (Economist: 7/15/2006)
7. Will the Bail-Out Work? (Economist: 10/3/2008)
8. Turning Japanese (Economist: 8/1/2011)

Topic 1: Introduction to Macro Data

Textbook: Chapters 1, 2, and 3.5

I. *Measuring Inflation and Unemployment*

9. Feeling the Heat (Economist: 6/24/2006)
10. It's The Taking Part That Counts (Economist: 7/30/2005)

III. *Difficulty in Measuring Output/Output Growth*

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

- 12. Redefining Recession (Economist: 9/11/2008)
- 13. Measuring What Matters (Economist: 9/17/2009)

Topic 2: Production, the Labor Market and Economic Growth

Textbook: Chapters 3 and 6 (skim 6.2)

I. Growth

- 14. The Secret Souce (Economist: 11/12/2009)
- 15. How to Grow (Economist: 10/7/2010)
- 16. In the Grip of a Great Convergence* (Financial Times: 1/4/2011)

II. Labor Market and Unemployment

- 17. The Land of Leisure (Economist: 2/4/2006)
- 18. Jobs Gloom with Glimmers (Economist: 11/6/2009)
- 19. Socialist Workers (Economist: 6/10/2010)
- 20. From hoarding to hiring (Economist: 10/7/2010)

Topic 3: Consumption, Saving, and Investment

Textbook: Chapters 4.1, 4.2, 9.2, and Appendix 4.A

I. Consumption/Savings

- 21. The Shift Away from Thrift (Economist: 4/9/2005)
- 22. Consumption Growth Could Power the US in 2011* (Financial Times: 12/28/2010)
- 23. The Morning After (Economist: 6/24/2010)

II. Investment

- 24. From Investment Boom to Bust (Economist: 3/3/2001)
- 25. Cost of Borrowing Zooms Up for Corporations* (NYT: 1/19/2009)
- 26. Invested Interests (Economist: 1/21/2010)

Topic 4: Fiscal Policy

Textbook: Chapter 15 (skip 15.4)

I. *Government Savings*

- 27. The Money Comes Pouring In (Economist: 7/15/2006)
- 28. Bush expects deficit to double* (FT: 02/05/2008)
- 29. Confronting the Monster (Economist: 11/18/2010)
- 30. You ain't seen nothing yet (Economist: 7/9/2011)

II. *Taxes*

- 31. The Tax Rebate was a Flop. Obama's Stimulus Plan Won't Work Either* (Martin Feldstein 8/6/2008)
- 32. The Impact of the 2008 Rebate* (Broda and Parker 8/15/2008)

III. *Government Spending*

- 33. Government Spending is no Free Lunch* (Robert Barro 1/22/2009)
- 34. War and non Remembrance* (Paul Krugman 1/22/2009)
- 35. Cutting Edge (Economist: 9/30/2010)
- 36. Cut or Loose (Economist: 7/14/2011)

Topic 5: Money and the Federal Reserve Bank Policy

Textbook: Chapters 7, 9.3, 14.1, and 14.2

I. *Monetary Policy*

- 37. A Blunt Tool (Economist: 6/30/2001)
- 38. US banks quietly borrow \$50bn from Fed via new credit facility* (FT: 02/19/2008)
- 39. A Monetary Malaise (Economist: 10/9/2008)
- 40. It Wasn't Us (Economist: 3/18/2010)
- 41. Fed Officials See Gradual Exit Plan* (WSJ: 5/19/2011)

II. *Liquidity Trap*

- 42. Ways Out of the Liquidity Trap* (Financial Times: 11/3/2008)
- 43. Central Banks can Adapt to Life Below Zero* (Financial Times: 8/30/2009)
- 44. QE2: Open Door to Escape the Liquidity Trap* (Financial Times: 11/14/2010)

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

Textbook: Chapters 8-11

I. *A Look at Recessions*

- 45. Even Fed's Greenspan is Fallible When Trying to Predict a Recession* (WSJ 1996)
- 46. Unstoppable? (Economist: 8/21/2004)
- 47. Bernanke's bounty (Economist: 10/22/2007)
- 48. Bad Circulation (Economist: 8/26/2010)

II. *Should We Care about Inflation and Deflation?*

- 49. A Good Word for Inflation (the benefits of inflation?)* (Krugman)
- 50. A Winding Path to Inflation (Economist: 1/3/2010)
- 51. Should Greenspan Be Worrying About Deflation?* (Greg Mankiw: 12/7/1998)
- 52. The Central Bankers' Burden (Economist: 7/15/2010)

Topic 7: A Deeper Look at Policy in Action

Textbook: Chapter 12 and 14.3

I. *The Fear of Uncertainty*

- 53. (Nearly) Nothing to Fear but Fear itself (Economist: 1/29/2009)
- 54. What's With All the Bernanke Bashing?* (NYT: 7/30/2011)

II. *The Inflation/Unemployment Tradeoff*

- 55. The Taylor rule* (John Taylor: 1998)
- 56. Curve Ball (Economist: 9/30/2006)
- 57. Grim Expectations (Economist: 6/26/2008)

III. *The Recent Financial Crisis*

- 58. Confidence Trick (Economist: 9/22/2007)
- 59. When to bail out (Economist: 10/4/2007)
- 60. Diamond and Kashyap on the Recent Financial Upheavals* (NYT: 10/20/2008)
- 61. Lessons from a "Lost Decade" (Economist: 8/21/2008)
- 62. 1929 and All That (Economist: 10/2/2008)
- 63. Not Yet the Last Resort (Economist: 10/9/2008)
- 64. Speech by Chairman Bernanke* (Federal Reserve Board: 1/13/2009)
- 65. Cheap as chips (Economist: 1/14/2010)
- 66. Speech by Chairman Bernanke* (Federal Reserve Board: 9/15/2010)

Topic 8: The International Economy

Textbook: Chapter 5 and 13

II. *Current Accounts and Global Imbalances*

- 67. Speech by Chairman Bernanke* (Federal Reserve Board: 4/14/2005)
- 68. The domino effect (Economist: 7/3/2008)
- 69. Inflated claims (Economist: 8/14/2008)

II. *International Policy Coordination and Currency Wars*

- 70. Trial of Strength (Economist: 9/25/2010)
- 71. How to stop a currency war (Economist: 10/14/2010)

III. *The Debt Crisis and the Future of the Euro*

- 72. No easy exit (Economist: 12/2/2010)
- 73. How to resign from the club (Economist: 12/2/2010)
- 74. Time for Plan B (Economist: 1/13/2011)
- 75. If Greece goes... (Economist: 6/23/2011)