

Macroeconomic Theory

Economics 312 – Spring 2009

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1 Thoughts on Macroeconomics

"I loved the Foundations. Like so many others in my cohort, I internalized its view that if I could not formulate a problem in economic theory mathematically, I did not know what I was doing. I came to the position that mathematical analysis is not one of many ways of doing economic theory: It is the only way. Economic theory is mathematical analysis. Everything else is just pictures and talk." - Robert Lucas 2001

"In 1963, I had thought of a competitive industry in terms of firms solving short- and long-run, deterministic profit maximization problems, under the (false) belief that current prices would maintain their current values forever, and with the passage from one to the other and all the effects of unpredictable shocks tacked on as afterthoughts. Five years later, I thought of the same economics in terms of firms maximizing expected discounted present value, with rational expectations about the probability distributions of future prices, and with stochastic shocks and adjustment costs both

fully integrated into the theory. From an objective point of view, this transformation can be viewed as a product of decades of research by many economists. From my subjective viewpoint, it was the most rapid, radical change of view I have ever experienced as an economist.” - Robert Lucas 2001

”Inflation is the one form of taxation that can be imposed without legislation.”- Milton Friedman

”Most economic fallacies derive from the tendency to assume that there is a fixed pie, that one party can gain only at the expense of another.”- Milton Friedman

2 Course Description

Macroeconomics studies the economy as a whole and the interactions between sectors of the economy. Like all economics courses the primary focus is on how economic agents make decisions and the impact of those decisions on others. However, in this course the object of focus is not on an individual but on the aggregate behavior of firms and consumers. The approach of this course explicitly links your microeconomics course with the study of macro. We will start the semester thinking about individual household and firm optimization problems and then aggregate those to gain a better understanding of how aggregate, consumption, employment, and output is determined. Once we have a solid understanding of the workings of the economy in short run, we will extend or model to think about what makes economies grow in the long run.

3 Course Objective

To develop a unified framework in which to understand the determinants of aggregate consumption, investment, labor, output, and prices in the short and long run. Using this framework we can then ask how will the economy respond to various policy and technology shocks. The topics covered are long-term economic growth, short-term business cycle fluctuations, unemployment and economic policy.

4 Readings

Please read before class. Required Text: Williamson, Stephen D.. *Macroeconomics 2nd edition*. Additional readings may be assigned throughout the semester and posted on the class web site.

5 Current Events/Class Participation

One of the most exciting aspects to studying economics is analyzing current events and policy. To gain a better understanding of how our economic theories from class can explain these happenings, I would like each student to present at least one current economic event in class. A night or two before you present you will email to me and your class the article. For the first five minutes of class you will discuss the current event and then use some kind of model or graph (from microeconomic or macroeconomic theory) to try and explain the problem. You may work in pairs. We will make up a schedule the second week of class.

6 Problem Sets

There will be roughly nine problem sets. Three to four questions per chapter. Half a letter grade will be deducted each day the problem sets are late (a weekend counts as two days.) A late ps is one that is received after 3pm the day it is due.

7 Papers

There will be three (3-4 page) papers assigned throughout the semester: a descriptive paper, a literature review, and an analytical paper. A more detailed description of each paper will be posted on the my website. Half a letter grade will be deducted each day the paper is late (a weekend counts as two days.) A late paper is one that is received after 3pm the day it is due.

8 Exams

There will be two exams during the semester and a final exam. The two exams will be given during our regular class period. I will hold a Review Session the night before each exam and the final. No new material will be covered- this is simply a chance for you to ask last minute questions. **During midterms and the final students may not use their calculator in text mode.** If you cannot attend a scheduled exam for a legitimate reasons, please coordinate with me **before** the exam occurs to schedule an alternate exam. If you simply do not show for an exam it will be an automatic zero.

9 Assessment

- Exam I: 20%
- Exam II: 20%
- Papers: 15%
- Current Events/Class Participation: 5%
- Problem Sets 10%
- Final: 30%