

Macroeconomic Theory (SQE)

Economics 312Q – Fall 2008

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1 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.

2 Readings

Please read before class. Required Text: Williamson, Stephen D.. *Macroeconomics 2nd edition*. To understand how to apply abstract economic theory to real world problems we will be discussing various current events throughout the semester. For suggested readings please see my web site.

3 Problem Sets

There will be roughly ten problem sets due throughout the semester. Three to four questions per chapter. The problem sets are the intended to help you get used to using economic models to solve complicated economic questions. Since the questions may be challenging, I encourage you to meet and discuss the problems with your classmates. However, each individual must write up and hand in their own work.

4 Four Mini Papers

Objective- Identify a macro economic problem that is occurring in a country of your own choosing. Using economic theory from class figure out why it is happening. Suggest certain economic policies that may potentially solve the problem.

- Paper #1 What's wrong with your Country? (Identifying the Macro Problem/Issue) Examining macro data from your Country, determine the economic status of your Country. Is your Country economically healthy? Identify at least one current macroeconomic problem.
- Paper #2 What research has already been done on your problem? (Literature Review) Discuss the work other economists have done on your Country's "problem". In particular, what empirical work has been done on your topic? How did the authors go about testing the theory empirically and what did they find? Use at least 5 academic journal articles from economic journals. When referring to a journal article, you should reference by the authors last names and the year published (for example "Cunningham and Baker (2005) find . . .").
- Paper #3 What does macroeconomic theory say about the causes/determinants of your Country's "problem"? (Theoretical Paper) Use the economic theory discussed in class, the text, or other economics courses. Use graphs and equations if helpful. Be sure to include a Works Cited page.
- Paper #4 What macroeconomic policies would fix the "economic problem" that is occurring in your Country? (Policy Prescription) Explain in words and graphs a particular policy that you think might be effective and why (look at both the short run and the long run policy implications).

Specifications for Each Paper

- Minimum 2.5 pages of text (graphs not included), 12 pt. font, reasonable margins
- Any paper received after 3 pm on the day it was due will receive grade off per day (each weekend day counts as a day).
- No direct quotes: When discussing others people's work, synthesize what they are saying rather than quote it directly. If you have referenced them directly (for example "Cunningham and Baker (2005) find . . .") they will be cited so there'd no need for a footnote in addition.

5 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. It 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.

6 Assessment

- Exam I: 20%
- Exam II: 20%
- Paper: 15%
- Class Participation: 5%
- Problem Sets 10%
- Final: 30%

7 Class Schedule

7.1 Micro Foundations to Macroeconomics

- Week One: What is macroeconomics? (Chapter One)
- Week Two: How does one measure economic activity? (Chapters Two and Three)

- Week Three: How do individuals make consumption and leisure decisions? (Chapter Four)
- Week Four: How do firms decide how many workers to hire and how much to produce? (Chapter 4)
- Week Five: Could a benevolent social planner do a better job allocating resources than a market economy? (Chapter5)

7.2 The Economy in the Long Run

- Week Six: How do countries grow? (Chapter6)
- Week Seven: Why do some countries grow faster than others? (Chapter 6)
- Week Eight: How can government policies encourage faster growth? (Chapter 7)
- Week Nine: What drives consumers to save? (Chapter 8)
- Week Ten: How do firms decide how much to invest? (Chapter 9)
- Week Eleven: What determines the demand and supply of money? (Chapter 10)

7.3 Monetary and Fiscal Policy

- Week Twelve: What is the impact of government spending on the economy? (Chapter 11)
- Week Thirteen: What is the impact of altering taxes on the economy? (Chapter 11)
- Week Fourteen: What influence does the Federal Reserve have on the economy? (Chapter 12)
- Week Fifteen: How does inflation affect the economy?

7.4 International

- Week Sixteen: What determines the exchange rate between countries?
- Week Seventeen: If the US sneezes does the world catch a cold?