Public Policy 556

Macroeconomics

Josh Hausman

Course Information and Procedures

Location and time
Class meets Tuesday and Thursday 10-11:20am in Weill 1120.

Course description and objectives
This course will teach students the basic tools of macroeconomics and will apply them to real world economic policy. The goals of the course are for students to: (a) understand how to evaluate macroeconomic conditions such as unemployment, inflation, and growth; (b) understand how monetary and fiscal policy can be used to influence macroeconomic conditions; (c) understand media accounts of macroeconomic events.

Course requirements
There will be 4 problem sets, a short (4 page) book review, a midterm on 10/31 and a final on December 16th, 4:00pm-6:00pm. NOTE: THE FINAL WILL NOT BE RESCHEDULED (except for medical reasons). IF YOU CANNOT MAKE THE FINAL EXAM DATE, YOU SHOULD NOT TAKE THIS CLASS.

Grades will be weighted as follows:
- Problem sets and class participation: 10%
- Book review (see next page): 30%
- Midterm: 25%.
- Final: 35%.

Key dates:
- Problem sets due: 9/17, 9/26, 10/29, 11/21.
- Exams: Midterm on 10/31; final on 12/16.

Contact information and office hours (in Weill 3309)
Email: hausmanj@umich.edu
Office phone: (734) 763-3479
Office hours: Mondays, 4-5pm; Thursdays, 2pm-3pm.

Course prerequisites: PUBPOL 555 or Economics 401 (Intermediate Microeconomics), or the equivalent, and graduate standing.
**Book review project**
Students will select a book on a topic related to the course material. They will write a roughly four page (1000 word) critical review of the book. Good reviews will (1) summarize the main argument of the book; (2) discuss how the book relates to a model we learned in the course (the Solow growth model, IS-MP, or AD-IA); (3) describe at least one thing you learned from the book that surprised you; (4) discuss at least one thing in the book that could be improved.

Below is a list of suggested books. If you would like to review a book not on this list, please talk to me. In particular, the list below is focused on U.S. / global perspectives. If you are interested in another country or region, come talk to me, and we will find an appropriate book.

**Suggested books**

1. **Long-run growth**

2. **Business cycles**
   - Eichengreen, Barry. 2015. *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses---and Misuses---of History*.

3. **Inequality**

4. **Political economy (i.e. political consequences of macroeconomic changes).**

5. **Finance and the Federal Reserve**
Ford School Inclusivity Statement
Members of the Ford School community represent a rich variety of backgrounds and perspectives. We are committed to providing an atmosphere for learning that respects diversity. While working together to build this community we ask all members to:

- share their unique experiences, values and beliefs
- be open to the views of others
- honor the uniqueness of their colleagues
- appreciate the opportunity that we have to learn from each other in this community
- value one another’s opinions and communicate in a respectful manner
- keep confidential discussions that the community has of a personal (or professional) nature
- use this opportunity together to discuss ways in which we can create an inclusive environment in Ford classes and across the UM community.

Students with Disabilities
If you believe you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of this course may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, I can work with the Services for Students with Disabilities (SSD) office to help determine appropriate accommodations. I will treat any information you provide as private and confidential.

Student Mental Health and Wellbeing
The University of Michigan is committed to advancing the mental health and wellbeing of its students. We acknowledge that a variety of issues, such as strained relationships, increased anxiety, alcohol/drug problems, and depression, directly impact students’ academic performance. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact Counseling and Psychological Services (CAPS) and/or University Health Service (UHS). For a listing of other mental health resources available on and off campus, visit: http://umich.edu/~mhealth/.

Use of technology
- Please do not blog or tweet anything that I say in class without my consent.
- Please talk to me before recording or photographing any of class.
- While I do not ban electronics in class, I encourage you to take notes by hand. Research suggests that this improves learning (https://www.nytimes.com/2017/11/22/business/laptops-not-during-lecture-or-meeting.html).

Ford School Academic Expectations: I expect all students to review and abide by the Ford School academic expectations given here, http://fordschool.umich.edu/academics/expectations. I am happy to discuss any questions you may have.
**Readings**

**Required textbook:**

You may use earlier (and much cheaper!) editions of the textbook. But be aware that chapter numbering has changed. (And you will miss some of the interesting recent empirical examples.)

**Strongly recommended book:**

- I will be distributing codes that will give you access to the preliminary online version of this book. (It will not be published until 2020.)

**Other course readings:** Other than these two textbooks, and the book that you choose to read for your book review, all readings are linked to below or will be available on Canvas.

In addition to the required readings listed below, I will sometimes distribute short articles on Canvas on topics related to the course material.

**Media and blogs**

Students are urged to stay up-to-date with current macroeconomic news. Standard sources are the *Wall Street Journal* (www.wsj.com), the *Financial Times* (www.ft.com), and the *Economist* (www.economist.com).

An enormous amount of high-quality debate about macro policy now occurs on blogs. Particularly recommended are:

- https://equitablegrowth.org/insights-expertise/value-added/
- http://marginalrevolution.com
- https://www.nytimes.com/column/paul-krugman
- http://gregmankiw.blogspot.com
- http://carolabinder.blogspot.com
- http://delong.typepad.com
- http://www.econbrowser.com
- https://growththecon.com/blog/
- http://johnhcochrane.blogspot.com/
- https://ftalphaville.ft.com
- http://worthwhile.typepad.com
- https://mainlymacro.blogspot.com
Daily schedule. All readings with a * are required.  
With the exception of the first day (9/3), all required readings should be done before class.

I. Classical Theory and Long-Run Growth

9/3: Introduction
- *Mankiw, chapters 1 and 2.

9/5: Gross domestic product (GDP) and its components
- *Mankiw, chapter 3.
- Stevenson and Wolfers, chapter 9.

9/10: Unemployment. PROBLEM SET 1 DISTRIBUTED.
- *Mankiw, chapter 7.
- Stevenson and Wolfers, chapter 11.

9/12: Money.
- *Mankiw, chapter 4.

9/17: Inflation. PROBLEM SET 1 DUE.
- *Mankiw, chapter 5.
- Stevenson and Wolfers, chapter 12.

9/19: Growth theory I. PROBLEM SET 2 DISTRIBUTED.
- *Mankiw, chapter 8, section 8.1 only.
- Stevenson and Wolfers, chapter 10, sections 10.1-10.3.

9/24: Growth theory II.
- *Mankiw, chapter 8, sections 8.2-8.4 only.

9/26: Growth theory III and growth empirics. PROBLEM SET 2 DUE.
- *Mankiw, chapter 9, sections 9.1-9.3 only.
- Stevenson and Wolfers, chapter 10, section 10.4.

10/1: Application: Inequality and capital accumulation
II. Business cycles

10/3: Intro to short-run fluctuations.
   • *Mankiw, chapter 10.
   • Stevenson and Wolfers, chapter 17.

10/8: The IS curve.
   • *Mankiw, chapter 11, section 11.1 only.
   • Stevenson and Wolfers, chapter 18, sections 18.1-18.2.

10/10: The IS-MP model.
   • *Romer, D. *Short Run Fluctuations*, preface and chapter 1 only.
   • Stevenson and Wolfers, chapter 18, sections 18.3-18.4.

10/17: Government debt and budget deficits.
   • Stevenson and Wolfers, chapter 23.

10/22: The open economy. PARAGRAPH DUE EXPLAINING YOUR CHOICE OF BOOK TO REVIEW. PROBLEM SET 3 DISTRIBUTED.
   • *Mankiw, chapter 6.
   • Stevenson and Wolfers, chapter 16.

10/24: Floating exchange rates
   • *Romer, D. Short Run Fluctuations*, chapter II, sections II-1 and II-2 only.

10/29: Fixed exchange rates. PROBLEM SET 3 DUE.
   • *Romer, D. Short Run Fluctuations*, chapter II, sections II-3 and II-4 only.

10/31: MIDTERM

11/5: Application: The Great Depression.

11/7: Application: Trade wars, Brexit, and Uncertainty
   • *A second reading to be determined.

11/12: Aggregate supply and inflation I.
   • *Romer, D. Short Run Fluctuations*, chapter III, section III-1 only.
11/14: Aggregate supply and inflation II. PROBLEM SET 4 DISTRIBUTED.
  • *Romer, D. Short Run Fluctuations, chapter III, section III-2 and III-3 only.

11/19: Application: The role of policymakers.
  • *Raghuram G. Rajan, “Central Banks are the Fall Guys,” Project Syndicate, 7/31/2019.
  • Stevenson and Wolfers, chapter 22.

11/21: The financial system. PROBLEM SET 4 DUE.
  • *Mankiw, chapter 18.
  • Stevenson and Wolfers, chapter 15.

11/26: Stabilization policy reconsidered.
  • *Mankiw, chapter 16.

12/3: Application: The 2008 recession and recovery

12/5: Application: Growth prospects for the U.S.
  • *Readings(s) to be determined.

12/10: Epilogue and Review. BOOK REVIEW DUE.
  • *Mankiw, epilogue.

12/16: 4:00-6:00 pm: FINAL EXAM.