

Public Policy 556

Macroeconomics

Josh Hausman

Course Information and Procedures

Schedule: M/W 1-2:30pm in Weill 1220

Office hours: Mondays and Wednesdays 2:35 to 3:35 pm in Weill 3309.

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Grading: 4 problem sets 10%; group project 25%; midterm 25%; final 40%

Description

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 prerequisites

PUBPOL 555 or Economics 401 (Intermediate Microeconomics), or the equivalent, and graduate standing.

Assignments

There are four problem sets and a group project. The group project will be an assessment of the recent macroeconomic performance and current macroeconomic problems of a particular country. Details on the group project will be distributed later in the course.

Midterm

There will be one in-class midterm on February 25th.

Final exam

The registrar has scheduled the final exam for this course on Thursday April 30th from 1:30-3:30pm. The final will cover the entire course.

Class Participation

Participation in class discussion is highly recommended.

Plagiarism and cheating

I take the Ford School rules seriously, and so should you. From the masters' student handbook (p. 5) (<http://fordschool.umich.edu/files/mpp-handbook-2013.pdf>):

The Ford School is a community of scholars who are ardently committed to the free exchange of ideas. As a community we rely on individuals to identify, affirm, and promote the values of academic integrity among students, faculty and staff. A clear sense of academic honesty and responsibility is fundamental to good scholarship. Conduct by Rackham students that violates the ethical or legal standards of the University community or of one's program or specialization may result in serious consequences, including immediate disciplinary action and future professional disrepute. Among the serious offenses against these standards are: cheating, plagiarism, misrepresentation or falsification of data, dishonesty in publication, falsification or improper modification of an academic record, misuse of human subjects or vertebrate animals, and aiding and abetting academic misconduct. Graduate students are responsible for being familiar with and are held accountable to the standards in all applicable University policies. Information about these policies is maintained by the Rackham Graduate School here: http://www.rackham.umich.edu/policies/academic_policies/. All Rackham students should review this information.

The handbook discusses academic integrity in more depth. If you have questions, please see me. Other resources on this are also available, e.g., <http://www.lib.umich.edu/shapiro-undergraduate-library/understanding-plagiarism-and-academic-integrity>.

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 Office of Services for Students with Disabilities to help determine appropriate accommodations. I will treat any information you provide as private and confidential.

Readings

Required textbook:

Mankiw, N. Gregory. 2013. *Macroeconomics*, Eighth Edition, New York: Worth Publishers.

This textbook is available for purchase at local bookstores under our course number. Students may use earlier (and much cheaper!) editions of the textbook. But be aware that chapter numbering has changed.

Other course readings: Other than this required book, all readings will be available on CTools.

Media and blogs

Students are urged to stay up-to-date with current macroeconomic news. The 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:

<http://marginalrevolution.com>

<http://equitablegrowth.org/blog>

<http://krugman.blogs.nytimes.com/>

<http://gregmankiw.blogspot.com>

<http://www.econbrowser.com>

<http://www.economist.com/blogs/freeexchange>

<https://growthecon.wordpress.com/>

<http://johnhcochrane.blogspot.com/>

Daily schedule. Required readings are denoted by an *.

With the exception of the first day (1/7), all readings should be done before class.

I. Classical Theory and Long-Run Growth

1/7: Introduction

- *Mankiw, chapters 1 and 2.
- Abraham, K., "What We Don't Know Could Hurt Us: Some Reflections on the Measurement of Economic Activity," *Journal of Economic Perspectives*, volume 19, no. 3, summer 2005, pp. 3-18.

1/12: Gross domestic product (GDP) and its components

- *Mankiw, chapter 3.
- "GDP Growth: Europe versus America," *The Economist*, June 17th 2004.

1/14: Unemployment

- *Mankiw, chapter 7.
- DeLong, J. B., "Hopeless Unemployment," Project Syndicate, July 31st 2012.

1/21: Money. PROBLEM SET 1 DISTRIBUTED.

- *Mankiw, chapter 4.
- U.S. Monetary Policy: Part 1: How Is The Fed Structured And What Are Its Policy Tools? January 16, 2004 FRBSF *Economic Letter*.

1/26: Inflation

- *Mankiw, chapter 5.
- Applebaum, B. "Economists are Different from You and Me." *New York Times*, Economix blog, December 2nd, 2013.

1/28: Growth theory I. PROBLEM SET 1 DUE.

- *Mankiw, chapter 8, section 8.1 only.
- *Dasgupta, Partha. *Economics: A Very Short Introduction*. Oxford: Oxford University Press, 2007, pp. 1-13 only.

2/2: Growth theory II.

- *Mankiw, chapter 8, sections 8.2-8.4 only.

2/4: Growth theory III and growth empirics

- *Mankiw, chapter 9, sections 9.1-9.3 only.
- Solow, Robert M., "Perspectives on Growth Theory," *Journal of Economic Perspectives*, Winter 1994, volume 8, no. 1, pp. 45-54.

II. Business cycles

2/9: Intro to short-run fluctuations.

- *Mankiw, chapter 10.
- Daly, M. and B. Hobijn, “Okun’s Law and the Unemployment Surprise of 2009” March 8, 2010, FRBSF.

2/11: The IS curve.

- *Mankiw, chapter 11, section 11.1 only.
- “Are We All Keynesians Now?” *The Economist*, Debate March 10-13, 2009.

2/16: The IS-MP model. PROBLEM SET 2 DISTRIBUTED.

- *Romer, D. *Short Run Fluctuations*, preface and chapter 1 only.
- U.S. Monetary Policy: Part 2: What Are The Goals Of U.S. Monetary Policy? January 23, 2004 FRBSF *Economic Letter*.
- U.S. Monetary Policy: Part 3: How Does Monetary Policy Affect The U.S. Economy? January 30, 2004 FRBSF *Economic Letter*.
- U.S. Monetary Policy: Part 4: How Does The Fed Decide The Appropriate Setting For The Policy Instrument? February 6, 2004 FRBSF *Economic Letter*.

2/18: Government debt and budget deficits.

- *J. Bradford DeLong. [*Budgeting and Macro Policy: A Primer*](#) (Ebook, 2012).
- Mankiw, chapter 19.

2/23: Application: The Great Depression. PROBLEM SET 2 DUE.

- *Christina D. Romer, “The Nation in Depression,” *Journal of Economic Perspectives* 7 (Spring 1993): 19-39.

2/25: Midterm

3/2 and 3/4: Spring break, no class.

3/9: The open economy.

- *Mankiw, chapter 6.
- Eichengreen, B. “Does the Federal Reserve Care about the Rest of the World?” *Journal of Economic Perspectives*, volume 27, number 4, fall 2013, pp. 87-105.

3/11: Floating exchange rates PROBLEM SET 3 DISTRIBUTED.

- *Romer, D. *Short Run Fluctuations*, chapter II, sections II-1 and II-2 only.

3/16: Fixed exchange rates

- *Romer, D. *Short Run Fluctuations*, chapter II, sections II-3 and II-4 only.
- Kevin H. O’Rourke and Alan H. Taylor, “Cross of Euros,” *Journal of Economic Perspectives*, 27 (Summer 2013): pp. 167-192.

3/18: Aggregate supply and inflation I. PROBLEM SET 3 DUE.

- *Romer, D. *Short Run Fluctuations*, chapter III, section III-1 only.

3/23: Aggregate supply and inflation II.

- *Romer, D. *Short Run Fluctuations*, chapter III, section III-2 and III-3 only.

3/25: Application: The role of policymakers. PROBLEM SET 4 DISTRIBUTED.

- *Christina D. Romer and David H. Romer, "Choosing the Federal Reserve Chair: Lessons from History," *Journal of Economic Perspectives* 18 (Winter 2004): pp. 129-147 only.
- *Burton A. Abrams, "How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes," *Journal of Economic Perspectives* 20 (Fall 2006): pp. 177-188.

3/30: The financial system.

- *Mankiw, chapter 20.

4/1: Stabilization policy reconsidered. PROBLEM SET 4 DUE.

- *Mankiw, chapter 18.

4/6: Application: The 2008 recession and recovery

- **Economic Report of the President*, Chapter 2 pp. 39-55 only (Washington, DC: Government Printing Office, 2010).
- Kathryn M. E. Dominguez and Matthew D. Shapiro, "Forecasting the Recovery from the Great Recession: Is this Time Different?" *American Economic Review: Papers and Proceedings* 103(May 2013): pp. 147-152.

4/8: Application: Crisis in Europe

- *Jay C. Shambaugh, "The Euro's Three Crises," *Brookings Papers on Economic Activity* (Spring 2012): pp. 157-187 only.

4/13: Group presentations

4/15: Group presentations

4/20: Epilogue and Review. GROUP PROJECT DUE.

- *Mankiw, epilogue.

4/30 1:30-3:30 pm: FINAL EXAM