Macroeconomic Analysis (Economics 302, section 01)
Wesleyan University, Spring 2011

Professor: Bill Craighead
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Office hours: Tuesday and Thursday, 3:30 – 5:00 pm; and by appointment

Course meets Tuesday and Thursday, 10:30 – 11:50 am in PAC 125

Macroeconomics examines the behavior of aggregate economic variables including national output, the price level, and the unemployment rate. The central topics of macroeconomics are (i) the growth (or lack thereof) of output and income over time and (ii) the fluctuations in economic activity known as “business cycles.”

Macroeconomics is a relatively young and constantly changing field. Schools of thought within the field differ on methodological approaches and policy prescriptions. This course will not present a set of fixed conclusions about how the economy works. Instead, the focus will be on understanding the key ideas and models that have driven the progress of macroeconomic theory.

The prerequisites for this course are introductory economics and calculus. Familiarity with basic microeconomic concepts such as utility and profit maximization will be assumed. The lectures, problem sets and exams will make use of algebra and some calculus (i.e., derivatives).

The primary source of readings will be N. Gregory Mankiw’s text, Macroeconomics (Worth Publishers, 7th edition). Substantial portions of The Elusive Quest for Growth by William Easterly (MIT Press) and How the Economy Works by Roger Farmer (Oxford) will also be assigned. Other readings will be available through moodle or library reserve. Mankiw’s book is very well-written, and it will be an excellent complement to the lectures. The lectures will not follow the book closely, however, so the readings will be a poor substitute for class attendance (and attentiveness).

Approximately 5-8 problem sets will be assigned during the semester. Students may work together, but must turn in the assignments individually. Late assignments will not be accepted and no extensions will be granted. Each student’s lowest problem set grade will be dropped from the final grade calculation.

Grades will be calculated as a weighted average, based on the problem sets (10%), two in-class midterm exams (25% each) and a comprehensive final exam (40%). Dates for the midterm exams will be announced in class. Midterm exams will not be given late; in the event of a serious illness, family emergency or university-sponsored travel, students may ask, in advance, for permission to take exams early or to have weight added to the final exam grade in place of the midterm. In the event of a perceived mistake in grading, a written explanation should be attached to the exam and submitted within 5 business days after the exams are returned to the class. The final exam is scheduled for Friday, December 16 at 9:00 am.

*The use of computers, mobile phones, etc. – including for text-messaging – in class is not permitted.*

The syllabus and course outline are subject to modifications, which will be announced in class.
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Course outline and reading list
Readings marked (o) are optional

I. Introduction
   a. Overview of Macroeconomics
      Mankiw, ch. 1
   b. Macroeconomic Data
      Mankiw, ch. 2, 4.4
   c. Mathematical Tools
      Mathematical Primer for Intermediate Macroeconomics
   d. Neoclassical Theory of Distribution
      Mankiw, ch. 3.1, 3.2

II. Economic Growth
   a. Growth Accounting
      Mankiw, appendix to ch. 8
   b. Solow Growth Model
      Mankiw, ch. 7, 8.1-8.3
      Easterly, ch. 3
   c. Convergence
   d. Human Capital
      Easterly, ch. 4

e. Endogenous Growth
Mankiw, ch. 8.4

f. Institutions and Growth
Easterly, ch. 11, 12

III. Economic Fluctuations

a. Classical Economics and the Great Depression
J. M. Keynes, *The General Theory*, ch. 2, 3.3
Farmer, ch. 2

b. “Textbook” Keynesian Model
Mankiw, ch. 9, 10, 11
N.G. Mankiw, *Macroeconomics (6th ed)*, appendix to ch. 11
Farmer, ch. 3

c. The Phillips Curve and the Natural Rate Hypothesis
Mankiw, ch. 13.2
Farmer, ch. 4

d. Rethinking the Consumption Function
i. Permanent Income Hypothesis
Mankiw, ch. 17.1-17.4
ii. Random Walk Hypothesis
Mankiw, ch. 17.5
iii. Ricardian Equivalence
Mankiw, ch. 16.4

e. Expectations and the Lucas Critique
Farmer, ch. 5
f. Real Business Cycle Theory

g. New Keynesian Macroeconomics
   (o) Mankiw, ch. 14
   (o) *The Economist*, “Sticky Situations,” Nov. 11, 2006

IV. Open-Economy Macroeconomics
a. Introduction to the Open Economy
   Mankiw, ch. 5.1, 5.3
   (o) B. Bernanke, "The Global Saving Glut and the U.S. Current Account Deficit," Lecture, April 14, 2005
b. Mundell-Fleming Model
   Mankiw, ch. 12

V. Monetary Policy
a. Money Supply
   Mankiw, ch. 19.1
b. Rules vs. Discretion (Time Consistency)
   Mankiw ch. 15 (including appendix)
   C. I. Plossser, “Credibility and Commitment,” Speech, March 6, 2007

VI. Depression Economics and the Recession of 2008-09
a. “Animal Spirits”
   (o) J. M. Keynes, *The General Theory*, ch. 12, 22
b. Banking Crises and the Lender of Last Resort
c. Deflation, Liquidity Traps and the Zero Lower Bound
d. Assessing the Policy Response

VII. Conclusion