Macroeconomic Analysis (Economics 302, section 01)
Wesleyan University, Fall 2013

Professor: Bill Craighead  
E-mail: b craighead@wesleyan.edu  
Office: PAC 330  
Office Hours: Monday 1:00-2:00 pm; Tuesday, 1:00-3:00 pm; and by appointment

Course meets Monday and Wednesday, 11:00 am-12:20 pm, in PAC 107

Macroeconomics examines the behavior of economies described by aggregate economic variables such as 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 course will utilize N. Gregory Mankiw’s text, *Macroeconomics* (Worth Publishers, 7th or 8th edition). It is well-written, and will be an excellent complement to the lectures. However, the class will not follow the book closely, so it will be a poor substitute for class attendance (and attentiveness). 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.

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. The 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, Dec. 13 at 2:00 pm.

Students requiring disability accommodations should request them through disability resources (Dean Patey) at the beginning of the semester.

*Trust and honesty are vital to the functioning of an academic community; adherence to the Honor Code is expected at all times.*

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

The syllabus and course outline are subject to modifications, which will be announced in class.
Course outline and reading list

Readings marked (o) are optional

I. Introduction
   a. Overview of Macroeconomics
      Mankiw, ch. 1 [ch. 1]
   b. Macroeconomic Data
      Mankiw, ch. 2, 4.4 [ch. 2, 5.3]
      M. Yglesias, “America is Exactly 3 Percent Richer Than We Thought,” *Slate*, Apr. 25, 2013
   c. Mathematical Tools
      A Mathematical Primer for Intermediate Macroeconomics
   d. Neoclassical Theory of Distribution
      Mankiw, ch. 3.1, 3.2 [ch. 3.1, 3.2]

II. Economic Growth
   a. Growth Accounting
      Mankiw, appendix to ch. 8 [appendix to ch. 9]
   b. Solow Growth Model
      Mankiw, ch. 7, 8.1-8.3 [ch. 8, 9.1-9.3]
      Easterly, ch. 3
   c. Convergence
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 [ch. 10, 11, 12]
   N.G. Mankiw, *Macroeconomics* (6th ed), appendix to ch. 11
   Farmer, ch. 3
   (o) P. Krugman, Introduction to *The General Theory*

c. The Phillips Curve and the Natural Rate Hypothesis
   Mankiw, ch. 13.2 [ch. 14.2]
   Farmer, ch. 4

d. Rethinking the Consumption Function
   i. Permanent Income Hypothesis
      Mankiw, ch. 17.1-17.4 [ch. 16.1-16.4]
   ii. Random Walk Hypothesis
      Mankiw, ch. 17.5 [ch. 16.5]
   iii. Ricardian Equivalence
      Mankiw, ch. 16.4 [ch. 19.4]
e. Expectations and the Lucas Critique
   B. McCallum, “The Significance of Rational Expectations Theory,”
   *Challenge*, Jan.-Feb. 1980
   Farmer, ch. 5
f. Real Business Cycle Theory
   N. G. Mankiw, “Real Business Cycles: A New Keynesian Perspective,”
   *Journal of Economic Perspectives*, Summer 1989
g. New Keynesian Macroeconomics
   (o) Mankiw, ch. 14 [ch. 15]

IV. The Open Economy: A Brief Introduction
   Mankiw, ch. 5.1, 5.3 [ch. 6.1, 6.3]
   (o) B. Bernanke, "The Global Saving Glut and the U.S. Current Account Deficit," Speech, April 14, 2005

V. Monetary Policy
   a. Money, Banking and the Lender of Last Resort
      Mankiw, ch. 19.1 [ch. 4.2, 4.3]
      P. Krugman, *The Return of Depression Economics and the Crisis of 2008* (Norton, 2009), chs. 7 and 8
   b. Monetary Policy, Rules and Credibility
      Mankiw ch. 15 (including appendix) [ch. 15 (including appendix)]
   c. The Zero Lower Bound, Liquidity Traps and Deflation

VI. Conclusion