Economics 302: Macroeconomic Analysis  
Wesleyan University, Fall 2014

Professor: Bill Craighead  
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Office: PAC 330  
Office hours: Mondays, 4:15-5:30 pm; Tuesdays, 1:00-3:00 pm; and by appointment

Class meets Mondays and Wednesdays, 2:40-4:00 pm in PAC 125

Description: Macroeconomics examines the behavior of 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 include introductory economics and calculus. Familiarity with basic microeconomic concepts such as utility and profit maximization will be assumed. Class material will make frequent use of algebra and some calculus (i.e., derivatives).

Operating Procedure:

• Readings: Readings drawn from a variety of sources will illustrate and illuminate macroeconomic concepts and their connections with contemporary and historical events. Articles will be available through Moodle. In addition, substantial portions of The Elusive Quest for Growth by William Easterly (MIT Press), How the Economy Works by Roger Farmer (Oxford) and The Alchemists by Neil Irwin (Penguin) will be assigned.

• Lecture Notes: A comprehensive set of lecture notes will be available through Moodle. These will function in place of both a textbook and class lectures, allowing more class time to be devoted to examples and discussion. It is recommended to bring printed copies of the lecture notes to class meetings.

• Exercises: Exercises will be assigned in advance of (nearly) all class meetings. Students may work together on these. In addition, we will work through exercises in class.

• Participation: Students must come to class prepared to discuss exercises and assigned readings. Since readings and problems will be assigned for most meetings, students should plan to spend time preparing in advance of every class.

Examinations and Grading: Grades will be calculated as a weighted average, based on class participation (25%), two in-class midterm exams (20%) each, and a comprehensive final exam (35%). 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 to Prof. Craighead’s mailbox in the Economics Department office within 5 business days after the exams are returned to the class. The final exam is schedule for Thursday, Dec. 11 at 2 pm.

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

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

Electronic Devices: The use of computers, electronic tablets and cellular phones - including for text messaging - is not permitted in class.

This syllabus and the course outline are subject to modifications, which will be announced in class.
Course Outline and Reading List

subject to revision


I. Introduction
   a. Overview of Macroeconomics
   b. Mathematical Tools
   c. Macroeconomic Data

II. Economic Growth
   a. Growth Accounting
   b. Solow Growth Model
      – Easterly, ch. 3
   c. Convergence
   d. Human Capital
      – Easterly, ch. 4
   e. Endogenous Growth
   f. Institutions and Growth
      – Easterly, chs. 11 & 12
III. Economic Fluctuations

a. Classical Economics and the Great Depression
   – Farmer, ch. 2

b. “Textbook” Keynesian Model
   – Farmer, ch. 3
   – Mary Daly, Bart Hobijn and Brian Lucking (2012), “Why Has Wage Growth Stayed Strong?” *FRBSF Economic Letter*, Apr. 2

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

d. Rethinking the Consumption Function
   i. Permanent Income Hypothesis
   ii. Ricardian Equivalence
   iii. Random Walk Hypothesis

e. Expectations and the Lucas Critique
   – Farmer, ch. 5

f. Real Business Cycle Theory

g. New Keynesian Macroeconomics

IV. Monetary Policy

a. Money, Banking and the Lender of Last Resort
   – Irwin, chs. 1-4, 10 & 11

b. Monetary Policy, Rules and Credibility
c. The Zero Lower Bound, Liquidity Traps and Deflation
   – Irwin, chs. 5, 15 & 18

V. Open-Economy Macroeconomics
   a. The Balance of Payments
      – Warren Buffett and Carol Loomis (2003), “America’s Growing Trade Deficit is Selling the Nation Out from Under Us,” Fortune, Nov. 10
   b. Exchange Rates
   c. The Euro and its Crisis
      – Irwin, chs. 6, 13, 16 & 19

VI. Conclusion