

# ECONOMICS 202: INTERMEDIATE MACROECONOMIC ANALYSIS

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WELLESLEY COLLEGE

Spring 2013

**TIME AND LOCATION:** This class meets on Mondays and Thursdays 1:30 – 2:40 PM in PNE 129.

**ALT WEDNESDAY SCHEDULE:** We will meet in the ALT-1 time slot on Wednesdays 2:15 - 3:25 PM in the same location.

**ABOUT THE COURSE:** Econ 202 is the intermediate course in macroeconomic theory. The economics prerequisites for this course are Econ 101 and Econ 102 (or the equivalent). The course is designed to be a rigorous, model-based study of intermediate macroeconomic theory. While some of the basic concepts will be familiar to you from Econ 102, this course will explore the topics in greater depth and in a more mathematically sophisticated manner. Therefore, Math 115 (or the equivalent) is also a strict prerequisite.

The topics that we will study in this course fall into two major categories: issues associated with the growth of the economy and issues associated with the periodic fluctuations in the size of the economy. We will address these two broad topics with the use of the following two analytical frameworks: the Solow growth model and the IS-LM/AS-AD model. The final section of the course addresses open economy macroeconomic issues.

**OFFICE HOURS:** Your success in this course is really important to me! I will be around for questions more often than not. Please, don't hesitate to email me and set up an appointment if you can't make my regular office hours. Office hours and contact information are as follows:

<b>E-Mail:</b>	olga.shurchkov@wellesley.edu (prompt responses sent at a reasonable hour)
<b>Office:</b>	PNE 417 (Phone: x2984)
<b>202 Office Hours:</b>	Mon. 9-10:30 AM, Wed. 3:30-5 PM, and by appointment
<b>General Office Hours:</b>	Mon. 4-5 PM
<b>Google group:</b>	ECON-202-01-SP13

**READINGS:** The required text for this course is Olivier Blanchard's *Macroeconomics* (6th Edition). The 5th edition of the text is quite different from the 6th. Thus, if you decide to use the 5th edition, it will be up to you to match up the chapters and pages (for example, chapter 9 is new and different in the 6th edition). Please, do NOT buy older editions of the textbook, since the material is different in a confusing way. The book is mainly a reference tool that is supposed to supplement the lectures, which are the primary learning tool in this class.

In addition, you are required to read all the starred articles in the detailed syllabus below (all readings can be found in the Readings folder on Google Drive). I will also be posting more recent articles as the course progresses. They will allow us to apply the material we've learned to the real world economic issues. The material from the articles will appear on problem sets and exams.

## COURSE REQUIREMENTS:

**Homework (20%):** This class will be highly work intensive. I will assign 9 problem sets over the course of the semester. Your best 8 scores on these problem sets will constitute 20% of your final grade. Other things to keep in mind:

- Problem sets will be posted on the class conference by 5 PM on the date distributed. Problem sets should be handed in at the BEGINNING of class on the due date. If you fail to do so, you will not get any credit for the problem set. Solutions will be posted by 5 PM on the due date.
- You must bring any grade-related discrepancies to my attention within a week after the graded problem sets are returned to you.
- There will be no extensions granted for ANY reason. If you run into an emergency, feel free to skip a problem set – remember, only 8 problem sets will be counted.

- You are encouraged to work on problem sets with your classmates, but you **MUST** hand in your own uniquely written-up homework. Problem sets are representative of exams, so you will only hurt yourself by over-relying on others.

**Midterms (45%):** There will be two closed-book midterms in this course held during regular class times. The midterm with a better relative performance counts 25%, while the midterm with a worse performance counts 20%. This grading scheme is designed to give you insurance against a “bad day” performance. There will not be any makeup exams unless you inform me within the first 2 weeks of class. All grading discrepancies must be brought to my attention within two weeks after the exams are returned to you.

**Final Examination (30%):** The final exam is self-scheduled, closed-book, comprehensive and will constitute 30% of your grade.

**Class participation (5%):** Everyone starts out with a B+ for class participation. You can either move up from there by being engaged (see how below) or move down from there (by skipping class, coming in late, disrupting class etc.). I reserve the right to reward students who do extremely well on the final and/or show a pattern of sustained improvement throughout the semester. I also reserve the right to cold call on students in order to create equal opportunities for participation across the entire class. These calls are not to put you on the spot, but rather to keep you engaged. Students are not judged on the accuracy of responses, but rather on the attention and effort that they put forth in class.

In summary, the following are ways for you to contribute in an active way:

- Inputs necessary for the success of an interactive classroom:
  - Be there!
  - Be on time!
  - No gadgets! I do not allow the use of laptops, PDAs, phones etc. during class unless required for health reasons.
  - Participate! There are lots of way to accomplish this:
    - \* Ask/answer questions in class, in office hours, or via email when you may feel more comfortable doing so.
    - \* Read the news. (Post interesting articles or comments on articles. Comment on articles on the Google Group.)
    - \* Actively participate in the FOMC case study discussion (more information to follow).

**GRADING:** Your course grade will depend on two factors: i) the total number of points you have at the end of the semester and ii) how your total score compares to the class as a whole. I will not be using absolute cutoffs for grades (e.g. 93+ A, 90+ A- etc.) There is no rationing of A grades (nor of C grades!). I will provide letter grade ranges on exams for purely for informational purposes: I will average your point scores, not your letter grades at the end of the semester. (In other words, someone who scores 55/70 on the midterm may get the same letter grade as someone who scored 58/70. However, the 58/70 will be more advantageous at the end of the semester).

**STUDENTS WITH DISABILITY:** Students needing disability accommodations should contact Jim Wice, Director of Disability Services, at 781-283-2434, [jwice@wellesley.edu](mailto:jwice@wellesley.edu), room 316 Clapp Library, to present documentation of a disability and to make requests for accommodations. He will notify me of what accommodations are appropriate.

**COURSE TUTOR:** This semester the tutor dedicated to this course is HoLum Kwok. She will be most useful as an EXTRA resource, so you should always come to me first and then go to her for ADDITIONAL help. Also, her primary responsibility is to make sure you understand the lecture material, so you should try to refrain from asking her to help with your homework assignments. The tutor will hold weekly office hours in the Economics Help Room, Wednesdays 7-9 PM.

## DETAILED LECTURE PLAN AND READINGS

Below is the detailed schedule that includes topics, assignments, and some readings. Starred readings are required. Unstarred readings are optional, but recommended. The schedule is tentative and subject to change. In addition to the listed articles, I will be distributing more recent and relevant readings via the Google Group. TBA = “to be announced” (more information to follow closer to the date).

### 1. *Major Topic: Introduction and Long Run Growth*

- **Monday, January 28th** – 1. Introduction
  - Blanchard, Ch. 1\* & Ch. 2\*
- **Thursday, January 31st** – 2. Mathematical Preliminaries
  - Pset 1 Distributed
  - Blanchard, Appendix 2\*
  - Blanchard, Ch. 14 (pp. 304-309)\*
- **Monday, February 4th** – 3. The Facts of Growth
  - Blanchard, Ch. 10\*
- **Wednesday, February 6th** – 4. The Basic Solow Model
  - Blanchard, Ch. 10\*
- **Thursday, February 7th** – 5. Comparative Statics Using the Solow Diagram
  - Pset 1 Due
  - Pset 2 Distributed
  - Blanchard, Ch. 11\*
- **Monday, February 11th** – 6. The Golden Rule
  - Blanchard, Ch. 11\*
- **Thursday, February 14th** – 7. The Solow Model with Technology
  - Pset 2 Due
  - Pset 3 Distributed
  - Blanchard, Ch. 12\*
- **Tuesday, February 19th** – **NO CLASS**
- **Wednesday, February 20th** – 8. Comparative Statics Using the Solow Model with Technology
  - Blanchard, Ch. 12\*
- **Thursday, February 21st** – 9. Assessing the Solow Model
  - Pset 3 Due
  - Blanchard, Ch. 13 (pp. 281-284)\*
- **Monday, February 25th** – 10. Growth Accounting and Other Applications
  - Oliner and Sichel, “The Resurgence of Growth in the Late 1990s: Is Information Technology the Story?” (Optional)

**Wednesday, February 27th– Review Session**

**Thursday, February 28th – First Midterm (Topics 1-10)**

**2. Major Topic: Business Cycle Fluctuations**

**THE SHORT RUN**

- **Monday, March 4th – 11. The Keynesian Model of the Goods Market**
  - Pset 4 Distributed
  - Blanchard, Ch. 3\*
- **Wednesday, March 6th – 12. The IS Curve**
  - Blanchard, Ch. 5 (pp. 85-90)\* & Ch. 14 (pp. 292-296)\* & Ch. 17 (pp. 358-361)\*
- **Thursday, March 7th – 13. The Financial Market**
  - Blanchard, Ch. 4\*
- **Monday, March 11th – 14. The LM Curve**
  - Blanchard, Ch. 5 (pp. 90-92)\*
- **Thursday, March 14th – 15. The IS-LM Model**
  - Pset 4 Due
  - Pset 5 Distributed
  - Blanchard, Ch. 3 & Ch. 5 (pp. 93-104)\* & Ch. 17 (pp. 361-363)\*

**\*\*\* SPRING BREAK\*\*\***

**THE MEDIUM RUN**

- **Monday, March 25th – 16. The Labor Market**
  - Blanchard, Ch. 6\*
- **Wednesday, March 27th– 17. Putting It All Together: The AS-AD Model**
  - Pset 5 Due
  - Pset 6 Distributed
  - Blanchard, Ch. 7 (pp. 133-142)\*
- **Thursday, March 28th – 18. Shocks and Policies**
  - Blanchard, Ch. 7 (pp. 142-156)\*
- **Monday, April 1st – 19. The Phillips Curve**
  - Blanchard, Ch. 8\*
- **Wednesday, April 3rd – NO CLASS**
  - Pset 6 Due
  - Pset 7 Distributed – FOMC Case (to be handed in by groups of 2-3 students)

- **Thursday, April 4th** – 20. Disinflation and the Role of Expectations
  - “Anatomy of a hump” (*The Economist*)\*
- **Monday, April 8th** – 21. The FOMC Case
  - *Pset 7 Due*
  - FOMC Case Materials\*
- **Wednesday, April 10th** – TBA

### Wednesday, April 10th – Review

### Thursday, – Second Midterm (Topics 11-21)

- **Thursday, April 18th** – 22. Expectations and Financial Markets
  - *Pset 8 Distributed*
  - Blanchard, Ch. 15\*
- **Monday, April 22nd** – 23. Macroeconomic Policy and the Zero Lower Bound
  - Blanchard, Ch. 9 & 17 (pp. 363-372)\*
  - CBO, “Economic Effects of Policies Contributing to Fiscal Tightening in 2013” (Optional)
  - Bernanke, “Monetary Policy since the Onset of the Crisis” (Optional)

### 3. Major Topic: *The Open Economy*

- **Thursday, April 25th** – 24. Exchange Rates and Openness in the Goods Market
  - *Pset 8 Due*
  - *Pset 9 Distributed*
  - Blanchard, Ch. 18 (pp. 379-388)\* & Ch. 19\*
- **Monday, April 29th** – 25. The IS-LM Model in the Open Economy with a Flexible Exchange Rate
  - Blanchard, Ch. 18 (pp. 388-396) & Ch. 20 (pp. 423-435)\*
- **Wednesday, May 1st** – 26. The IS-LM Model in the Open Economy with a Fixed Exchange Rate
  - Blanchard, Ch. 20 (pp. 435-439)\*
- **Thursday, May 2nd** – 27. AS-AD in the Open Economy with a Fixed Exchange Rate
  - *Pset 9 Due*
  - Blanchard, Ch. 21\*
  - History of the *European Monetary System* by Michael W. Klein
  - “The European Currencies in Turmoil” from John Taylor’s *Principles of Macroeconomics*
  - “Sell, sell, sell again - a diary of disaster” (*Dow Jones and Reuters*)
- **Monday, May 6th** – 28. Course Wrap-up

### Review Session during Reading Period (Time and Location TBA)

### Exam Week – Final Examination (Comprehensive)