

ECONOMICS 202: INTERMEDIATE MACROECONOMIC ANALYSIS

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WELLESLEY COLLEGE
Spring 2015

TIME AND LOCATION: This class will meet on Mondays and Thursdays 1:30 – 2:40 PM in PNE 339.

We will also meet 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:

E-Mail:	olga.shurchkov@wellesley.edu (prompt responses sent at a reasonable hour)
Office:	PNE 417 (Phone: x2984)
202 Office Hours:	Mon. 3-4PM, Tues. 1-2PM, and by appointment
Google group:	ECON-202-03-SP15

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 6 problem sets over the course of the semester. Your best 5 scores on these problem sets will constitute 20% of your final grade. Other things to keep in mind:

- Problem sets will be posted in Google Docs by 5 PM on the date distributed. Problem sets should be handed in at the beginning of class on the due date, unless otherwise specified in the detailed schedule below. 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 5 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. (I will also grant you some extra time during lunch, so plan accordingly!) 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, smart 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, 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 Siqin (Frances) Wang. 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, Sundays 7-9 PM.

Class #	Day	Date	Topic for the class and other information	Assignment*
1	Mon	26-Jan	Introduction	
2	Wed	28-Jan	NO CLASS (Snow day)	
Major Topic 1: Economic Growth in the Long Run				
3	Thur	29-Jan	Math Preliminaries	Pset 1 distributed
4	Mon	2-Feb	Facts of Growth	
5	Wed	4-Feb	Basic Solow Model of Economic Growth	
	Thur	5-Feb	Comparative Statics Using the Basic Solow Model	
	Mon	9-Feb	NO CLASS (Snow day)	
	Wed	11-Feb	Solow Model Examples and Practice	
6	Thur	12-Feb	Consumption in the Solow Model and the Golden Rule	Pset 1 due; Pset 2 distributed
	Mon	16-Feb	NO CLASS -- President's Day	
7	Wed	18-Feb	Solow Model with Technology	
8	Thur	19-Feb	Comparative Statics Using the Solow Model with Technology	
9	Mon	23-Feb	Assessing the Solow Model	Pset 2 due
	Wed	25-Feb	Review (In Class)	
	Thur	26-Feb	Midterm 1 (Classes 1-9)	
Major Topic 2: The Short Run and the IS-LM Model				
10	Mon	2-Mar	IS-LM Model: Goods Market Equilibrium	Pset 3 distributed
11	Wed	4-Mar	IS-LM Model: Derivation of the IS Relation	
12	Thur	5-Mar	IS-LM Model: Money Market Equilibrium	
13	Mon	9-Mar	IS-LM Model: Derivation of the LM Relation	
14	Wed	11-Mar	Short Run Equilibrium in the IS-LM Model	
Major Topic 3: The Medium Run and the AS-AD Model				
15	Thur	12-Mar	Labor Market Equilibrium	
16	Mon	16-Mar	Equilibrium in the AS-AD Model	
	Wed	18-Mar	TBA	Pset 3 due; Pset 4 distributed
SPRING BREAK				
17	Mon	30-Mar	Analysis of Shocks and Policies Using the AS-AD Model	
18	Wed	1-Apr	Expectations and Financial Markets	
19	Thur	2-Apr	Macroeconomic Policy and the Zero Lower Bound	
	Mon	6-Apr	TBA	Pset 4 due
	Wed	8-Apr	Review (In Class)	
	Thur	9-Apr	Midterm 2 (Classes 10-20)	
Major Topic 4: The Extended AS-AD Model				
20	Mon	13-Apr	AS-AD Model Extended: The Phillips Curve	Pset 5 distributed
21	Wed	15-Apr	AS-AD Model Extended: New AD Relation and Okun's Law	
22	Thur	16-Apr	Application of the Extended AS-AD: Disinflation and Rational Expectations	
	Mon	20-Apr	NO CLASS -- Patriot's Day	
	Tues	21-Apr	TBA	
23	Wed	22-Apr	FOMC Case	Pset 5 due
Major Topic 5: The Open Economy				
24	Thur	23-Apr	Exchange Rates and Openness in the Goods Markets	Pset 6 distributed
25	Mon	27-Apr	IS-LM in the Open Economy with a Flexible Exchange Rate	
	Wed	29-Apr	NO CLASS -- RUHLMAN CONFERENCE	
26	Thur	30-Apr	IS-LM in the Open Economy with a Fixed Exchange Rate	
27	Mon	4-May	AS-AD in the Open Economy with a Fixed Exchange Rate	
28	Wed	6-May	Currency Crises and Other Open Economy Topics	
29	Thur	7-May	Course Wrap-Up	Pset 6 due
Reading period			Review (time and location TBA)	
Exam period			Final exam (Comprehensive)	

* Psets are due at the beginning of class on the due date, unless otherwise specified.

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).

Major Topic 1: Introduction and Economic Growth in the Long Run

- **Monday, January 26th** – 1. Introduction
 - Blanchard, Ch. 1* & Ch. 2*
- **Wednesday, January 28th** – NO CLASS (Snow day)
- **Thursday, January 29th** – 2. Mathematical Preliminaries
 - *Pset 1 Distributed*
 - Blanchard, Appendix 2*
 - Blanchard, Ch. 14 (pp. 304-309)*
- **Monday, February 2nd** – 3. The Facts of Growth
 - Blanchard, Ch. 10*
- **Wednesday, February 4th** – 4. The Basic Solow Model of Economic Growth
 - Blanchard, Ch. 10*
- **Thursday, February 14th** – 5. Comparative Statics Using the Basic Solow Model
 - Blanchard, Ch. 11*
- **Monday, February 9th** – NO CLASS (Snow day)
- **Wednesday, February 11th** – 6. The Golden Rule
 - Blanchard, Ch. 11*
- **Thursday, February 12th** – Examples and Practice Problems with the Solow Model
 - *Pset 1 Due; Pset 2 Distributed*
- **Wednesday, February 18th** – 7. The Solow Model with Technology
 - Blanchard, Ch. 12*
- **Thursday, February 19th** – 8. Comparative Statics Using the Solow Model with Technology
 - Blanchard, Ch. 12*
 - Oliner and Sichel, “The Resurgence of Growth in the Late 1990s: Is Information Technology the Story?” (Optional)
- **Monday, February 23rd** – 9. Assessing the Solow Model
 - *Pset 2 Due*
 - Blanchard, Ch. 13 (pp. 281-284)*

Wednesday, February 25th– Review session in class

Thursday, February 26th – First Midterm (Classes 1-9)

Major Topic 2: The Short Run and the IS-LM Model

- **Monday, March 2nd** – 10. IS-LM Model: Goods Market Equilibrium
 - *Pset 3 Distributed*
 - Blanchard, Ch. 3*
- **Wednesday, March 4th** – 11. IS-LM Model: Derivation of the IS Relation
 - Blanchard, Ch. 5 (pp. 85-90)* & Ch. 14 (pp. 292-296)* & Ch. 17 (pp. 358-361)*
- **Thursday, March 5th** – 12. IS-LM Model: Money Market Equilibrium
 - Blanchard, Ch. 4*
- **Monday, March 9th** – 13. IS-LM Model: Derivation of the LM Relation
 - Blanchard, Ch. 5 (pp. 90-92)*
- **Wednesday, March 11th** – 14. Short-Run Equilibrium in the IS-LM Model
 - Blanchard, Ch. 3 & Ch. 5 (pp. 93-104)* & Ch. 17 (pp. 361-363)*

Major Topic 3: The Medium Run and the AS-AD Model

- **Thursday, March 12th** – 15. Labor Market Equilibrium
 - Blanchard, Ch. 6*
- **Monday, March 16th**– 16. Putting It All Together: Equilibrium in the AS-AD Model
 - Blanchard, Ch. 7 (pp. 133-142)*
- **Wednesday, March 18th** – NO CLASS
 - *Pset 3 Due Wednesday by 1:30PM* (in my mailbox); *Pset 4 Distributed*

***** SPRING BREAK *****

- **Monday, March 30th** – 17. Analysis of Shocks and Policies Using the AS-AD Model
 - Blanchard, Ch. 7 (pp. 142-156)*
- **Wednesday, April 1st** – 18. Expectations and Financial Markets
 - Blanchard, Ch. 15*
- **Thursday, April 2nd** – 19. Macroeconomic Policy and the Zero Lower Bound
 - Blanchard, Ch. 9 & 17 (pp. 363-372)*
 - Bernanke, “Monetary Policy since the Onset of the Crisis” (Optional)
- **Monday, April 6th** – TBA
 - *Pset 4 Due*

Wednesday, April 8th – Review session in class

Thursday, April 9th – Second Midterm (Classes 10-19)

Major Topic 4: The Extended AS-AD Model

- **Monday, April 13th** – 20. AS-AD Model Extended: The Phillips Curve
 - Blanchard, Ch. 8*
 - *Pset 5 Distributed* (Note: The FOMC Case analysis to be completed in groups of 2-3 students)
- **Wednesday, April 15th** – 21. AS-AD Model Extended: New AD Relation and Okun’s Law
 - “Anatomy of a hump” (*The Economist*)*
- **Thursday, April 16th** – 22. Application of Extended AS-AD: Disinflation and Rational Expectations
- **Monday, April 20th** – NO CLASS (Patriot’s Day)
- **Tuesday, April 21st** – TBA
- **Wednesday, April 22nd** – 23. The FOMC Case
 - *Pset 5 Due*
 - FOMC Case Materials*

Major Topic 5: The Open Economy

- **Thursday, April 23rd** – 24. Exchange Rates and Openness in the Goods Market
 - *Pset 6 Distributed*
 - Blanchard, Ch. 18 (pp. 379-388)* & Ch. 19*
- **Monday, April 27th** – 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, April 29th** – NO CLASS (Ruhlman Conference)
- **Thursday, April 30th** – 26. The IS-LM Model in the Open Economy with a Fixed Exchange Rate
 - Blanchard, Ch. 20 (pp. 435-439)*
- **Monday, May 4th** – 27. AS-AD in the Open Economy with a Fixed Exchange Rate
 - Blanchard, Ch. 21*
 - History of the *European Monetary System* by Michael W. Klein
- **Wednesday, May 6th** – 28. Currency Crises and Other Open Economy Topics
 - “The European Currencies in Turmoil” from John Taylor’s *Principles of Macroeconomics*
 - “Sell, sell, sell again - a diary of disaster” (*Dow Jones and Reuters*)
- **Thursday, May 7th** – 29. Course Wrap-up
 - *Pset 6 Due*

Review Session during Reading Period (Time and Location TBA)

Exam Week – Final Examination (Comprehensive)