

# Intermediate Macroeconomics

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**INSTRUCTOR:** Peter Jacobsen

ECON 311-004

**OFFICE LOCATION:** James Buchanan Hall D121

Spring 2020

**EMAIL ADDRESS:** [pjacobs6@gmu.edu](mailto:pjacobs6@gmu.edu)

Robinson Hall B111

**OFFICE HOURS:** Wednesday, 10:00 AM to 11:30 AM, or by appointment

Tues: 7:20-10:00PM

—There are two steps to learning macroeconomics. First, to see it as it is today. Second, to understand how it got there: to understand the right and the wrong turns, the hypotheses that proved false, the insights that proved true, and the interaction of events and ideas. Only then, does one truly understand macroeconomics. — Olivier Blanchard

## 1. COURSE DESCRIPTION

Our course will address two of the major questions dealt with by macroeconomists. The first, posed initially by Adam Smith, deals with economic growth. As Nobel laureate Robert Lucas said, “Once you start thinking about economic growth, it is hard to think about anything else”. The next is the question of short-run fluctuations. What is the nature and cause of recessions? Out of these questions follow many others. How does the monetary system work? What is the role of political and other institutions in growth/fluctuations? Why is there unemployment? The aim of the course is to familiarize students with the history of macroeconomic thought and the technical elements of macroeconomic theories. Upon successfully completing this course, you will learn (1) the data and analytical framework that macroeconomists use to study the production and allocation of output in both open and closed economies; (2) the role that the monetary system plays in the economy; (3) how to use the aggregate demand and supply model to analyze how the economy adjusts in the short and long-run under alternative theories of the business cycle; (4) the alternative perspectives on stabilization policy and government deficits and debt that emerge from these different theories; (5) the factors underlying economic growth.

During the first half of this course, our primary task will be to master the basic concepts and tools that macroeconomists use to analyze the operation of the economy. We will then walk through growth theory, which is crucial to discovering how poor nations become rich. In the second half of the course, we will explore different theories of business cycles, including the orthodox Keynesian school, the orthodox Monetarist school, the New Classical school, Real Business Cycle theory, the New Keynesian school, Austrian Business Cycle theory. We will end with a discussion of macroeconomic policy.

Mastering macroeconomics requires an understanding of both the theoretical paradigm that is currently dominant, and of past approaches that, for whatever reason, are no longer part of the mainstream. It is a mistake to believe that the science of economics progresses along a linear path of uninterrupted progress. Accordingly, examining macroeconomic theories that were once considered part of the mainstream is valuable, not only for historical reasons, but also because these ideas can aid in our knowledge of contemporary macroeconomics. Therefore, in this course we will explore both current and past theories of both economic growth and business cycles.

## **2. PREREQUISITES AND EXPECTATIONS**

I expect that you have successfully completed the following prerequisites for this course: ECON 103 and ECON 104. I assume that you have a basic understanding of macro and microeconomic principles, basic algebra, and elementary calculus. If you need to review these topics, I recommend that you use Marginal Revolution University and Khan Academy.

I also expect that you will treat your fellow classmates with respect, even if you disagree with them; reasonable minds can differ on any number of perspectives, opinions, and conclusions. Constructive disagreement sharpens our thinking and deepens our understanding; therefore, it is not only encouraged, but expected. All viewpoints are welcome in my class; however, no ideas are immune from scrutiny and debate.

Regular attendance is essential to successfully completing this course. As such, I expect you to attend all of the lectures. If you need to miss a class, it is your responsibility to obtain all lecture notes and assignments from one of your classmates.

## **3. READING MATERIALS**

There is one required textbook for this course:

Mankiw, N. G. (2019). *Macroeconomics* (10<sup>th</sup> edition).

While this book is required, buying an earlier edition is perfectly acceptable. I will be designing lectures, quizzes, and exams based on the 10<sup>th</sup> edition, but earlier editions should largely have the same content. However, it is important to note that the order of chapters changed between the ninth and tenth editions, so you should exercise care if you choose to use an earlier edition. Mankiw's textbook has long been the bestselling macroeconomics textbook on the market. While it is not perfect, it gives an excellent overview of macroeconomic science.

In addition to this book, I will also be assigning journal articles throughout the semester that are relevant to the topics that we are discussing. I will also assign pieces from sources such as the *Concise Encyclopedia of Economics*, which is available at [econlib.org](http://econlib.org). These various pieces will be posted on Blackboard for your convenience.

I will also assign chapters from Henry Hazlitt's classic *Economics in One Lesson*. A free pdf is available [here](#). In addition, I should also have print copies that I will be able to provide you later in the semester.

Lastly, I recommend Snowdon and Vane's (2005) *Modern Macroeconomics*. While you will not be explicitly evaluated over the material covered in this volume, a few of my lectures will be based on chapters from this book. Lastly, for those of you who are considering a graduate degree in economics, I strongly encourage you to master the material in this book *prior* to starting graduate school, especially if you're interested in becoming a macroeconomist.

## **4. EVALUATION AND GRADING**

Your grade in this course consists of daily quizzes, four problem sets, and two exams.

Weekly Quizzes    20%

Problem Sets    15%

Midterm Exam    30%    **Tuesday, March 3**

Final Exam    35%    **Tuesday, May 12, 7:30 am – 10:15 am**

The weekly quizzes will take place every Tuesday at the beginning of class, and will be based on both the assigned readings for that week and the lectures from the previous week. Consequently, attending class and completing the assigned readings will be essential to successfully completing this course. I will drop your lowest quiz grade to allow for any unexpected events that prevent you from attending class. There will not be any make-up quizzes – no exceptions.

Problem sets will consist of end of chapter problems from Mankiw as well as questions pulled from class lectures. These will reflect the types of questions that will be on the exams. Late assignments will not be accepted—no exceptions.

In accordance with University policy, if you have three or more exams on the date of the final examination, you may reschedule it. To do so, you must contact me **no less than one week** prior to the final examination. There will not be any make-up exams – no exceptions.

Grades will be assigned according to the following scale:

|     |        |
|-----|--------|
| A+  | 100-97 |
| A   | 96-94  |
| A - | 93-90  |
| B+  | 89-87  |
| B   | 86-84  |
| B - | 83-80  |
| C+  | 79-77  |
| C   | 76-74  |
| C - | 73-70  |
| D   | 69-60  |
| F   | < 60   |

## **5. SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS**

### **Week 1: January 21—The Science and Data of Macroeconomics**

Mankiw, Chapters 1 and 2

Lucas, What Economists Do (2011).

Higgs, Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s.

### **Week 2: January 28—National Income**

- Mankiw, Chapter 3
- Ott (2018) “National Income Accounts”
- Hazlitt, Ch 2-3

### **Week 3: February 4—Consumer Theory**

- Mankiw, Chapter 16
- Modigliani, Life Cycle, Individual Thrift, and the Wealth of Nations (1986)

### **Week 4: February 11—Investment Theory**

- Mankiw, Chapter 17
- Higgs (1997), “Regime Uncertainty”

### **Week 5: February 18—The Monetary System and Inflation**

- Mankiw, Chapter 4 & 5
- Radford (1945) “The Economic Organization of a P.O.W. Camp”
- Hazlitt. Ch 22, “The Mirage of Inflation”
- [Milton Friedman on Money and inflation](#). (10min).

*Problem Set #1 Due*

### **Week 6: February 25—Unemployment and Economics Growth I**

- Mankiw, Chapter 7-9
- Alchian (1969) “Information Costs, Pricing, and Resource Unemployment”
- Acemoglu, Johnson, Robinson (2001) “The Colonial Origins of Comparative Development”

*Problem Set #2 Due*

### **Week 7: March 3—MIDTERM**

### **Week 8: March 10—NO CLASS/SPRING BREAK**

Week 9: March 17

### **Introduction to Business Cycles**

- Lucas (1977) “Understanding Business Cycles”
- Romer (2018) “Business Cycles”

### **Aggregate Demand**

- Mankiw, Chapter 11 & 12
- Blinder (2018) “Keynesian Economics”
- Mankiw (2018) “New Keynesian Economics”

Week 10: March 24—**The Open Economy**

- Mankiw Chapter 6 & 13
- Hazlitt Chapter 11, “Who’s ‘protected’ by tariffs?”

Week 11: March 31—**The Orthodox Monetarist School**

- McCallum (2018) “Monetarism”
- Yeager (1956) “A Cash-Balance Interpretation”
- Friedman (1968) “The Role of Monetary Policy”

Week 12: April 7—**The New Classical School**

- Hoover (2018) “New Classical Macroeconomics”
- Barro (1989) “New Classicals and Keynesians”
- Barro (1979) “Second Thoughts on Keynesian Economics”

Week 13: April 14—**Austrian and Real Business Cycle Theories**

- Boettke, “Austrian School of Economics”
- Garrison (1989) “The Austrian Theory of the Business Cycle in the Light of Modern Macroeconomics”
- Plosser (1989) “Understanding RBC’s

*Problem Set #3 Due*

Week 14: April 21—**A Dynamic Model of Economic Fluctuations**

- Mankiw Chapter 15

Week 15: April 28—**Stabilization Policy and Government Debt**

- Mankiw, Chapter 16 & 17
- Abrams (2006) “How Richard Nixon Pressured Arthur Burns”
- Seater (2018) “Government Debt and Deficits”

**FINAL:** May 12, 7:30PM-10:15PM | <https://registrar.gmu.edu/calendars/spring-2020/final-exams/>

**The March 3rd Midterm and the University-determined Final Exam time are set in stone. I reserve the right to change the schedule and readings as needed with the exception of the exam times/dates.**

## **6. ADDITIONAL INFORMATION**

### Important University Dates:

Last day to add classes: January 28

Last day to drop with no tuition penalty: February 5

Last day to drop (50% Refund): February 11

Student Self-Withdrawal Period: February 25-March 30

### Technology Policy:

Cell phones, pagers, and other communicative devices are not allowed in this class. Please keep them stowed away and out of sight. Laptops or tablets (e.g., iPads) may be permitted for the purpose of taking notes only, but you must submit a request in writing to do so. Engaging in activities not related to the course (e.g., gaming, email, chat, etc.) will result in a significant deduction in your participation grade.

### Mason Honor Code:

Mason is an Honor Code university; please see the Office for Academic Integrity for a full description of the code and the honor committee process. The principle of academic integrity is taken very seriously and violations are treated gravely. What does academic integrity mean in this course? Essentially this: when you are responsible for a task, you will perform that task. When you rely on someone else's work in an aspect of the performance of that task, you will give full credit in the proper, accepted form. Another aspect of academic integrity is the free play of ideas. Vigorous discussion and debate are encouraged in this course, with the firm expectation that all aspects of the class will be conducted with civility and respect for differing ideas, perspectives, and traditions. When in doubt (of any kind) please ask for guidance and clarification.

### Disability Services:

Disability Services at George Mason University is committed to providing equitable access to learning opportunities for all students by upholding the laws that ensure equal treatment of people with disabilities. If you are seeking accommodations for this class, please first visit <http://ds.gmu.edu/> for detailed information about the Disability Services registration process. Then please discuss your approved accommodations with me. Disability Services is located in Student Union Building I (SUB I), Suite 2500. Email:ods@gmu.edu | Phone: (703) 993-2474

### Privacy:

Students must use their MasonLive email account to receive important University information, including communications related to this class. I will not respond to messages sent from or send messages to a non-Mason email address.