

C-11 Macroeconomics Spring, 2000

Professor Larry Christiano.

Office: 202 Anderson, office hours: Wednesday 3:15-4:00, or by appointment.

Telephone: 491-8231, email: l-christiano@northwestern.edu (it will generally be easier to reach me by email).

Textbook: Macroeconomics, Olivier Blanchard, 2nd edition.

TAs: Stefania Albanesi, email: s-albanesi@northwestern.edu, office phone: 491-8228, office: CRP 109; Ariel Burstein, email: a-burstein@northwestern.edu, office phone: 491-8221, office: CRP 104S; Riccardo Di Cecio, email: r-dicecio@northwestern.edu, office phone: 491-8244, office: CRP 112S.

TA office hours: Albanesi - Tue 6-8 pm; Burstein - Wed 6-8 pm; Di Cecio - Mon 5.15-7.15 pm.

Students are expected to attend one recitation session per week. There is no recitation in the first week of class. Students were asked to sign up for one of the six recitation sections in class, 3/30. Following are the various options:

Section 21, Burstein, Thursday, 2-2.50pm, TCHL 160

Section 22, Burstein, Friday, 2-2.50pm, KRG 272

Section 23, Albanesi, Thursday, 2-2.50pm, KRG 102

Section 24, Albanesi, Friday, 2-2.50 PM, ANN G32

Section 25, Di Cecio, Thursday, 2-2.50 PM ANN 101

Section 26, Di Cecio, Friday, 2-2.50 PM ANN 101.

Grading: weekly homeworks, due in Tuesday class each week (10%); midterms April 12 (15%) and May 3 (25%); final June 6, 9-11am (50%).

Course description. This course develops a simple framework for thinking about the determinants of variables like aggregate employment, unemployment, growth, investment, consumption, interest rates, and inflation. The framework is used to address issues of current interest, such as: what is the role of saving in determining the long run wealth of the country; do Americans save enough and, if not, what should be done about it; what is the role of money in accounting for inflation; what are the factors accounting for the recurrent fluctuations in unemployment and output called the business cycle; what is the US central bank's track record in fighting inflation, and are there changes that would help improve its performance; what are the factors underlying the crises recently experienced by several emerging market economies; should we worry about the so-called stock market bubble? The course will examine the various sides to debates about questions like these.

Summary of Course Content

All but the last two weeks of the course will focus on building a model of the short and medium run. This is the AD-AS model. The first building block for that model is the Keynesian Cross Model. That is actually an interesting model in its own right, and can be used to understand various economic events, such as the 1990 recession. Still, the Keynesian Cross Model is not sophisticated enough to handle everything we are interested in. For example, it abstracts from monetary issues, and so it does not allow us to talk about how monetary policy affects the economy. So, the next step is to construct the IS-LM model, which combines the Keynesian Cross Model (it's in the IS part of the IS-LM model) with a model of the money market (it's in the LM part of the model). Even though the IS-LM model is not our final product, it is nevertheless also an interesting model in its own right. We will use it to discuss the events surrounding the German reunification, the causes of the US business cycle, the economic problems in Japan in the 1990s, among other things.

The IS-LM model abstracts from changes in the price level. So, it too is not fancy enough for all of our purposes, since we want to understand things like inflation. This will lead us to think about how prices are determined in the macroeconomy and to incorporate these considerations into the IS-LM model. The result is the AD-AS model. Among other things, we'll use this model to understand the Great Depression and to discuss the various debates about how monetary and fiscal policy should be conducted. Here, we'll stress the 'Great Inflation' that occurred in many developed countries in the 1970s and what can be done to prevent this sort of thing from happening again.

The AD-AS model is a basic model in macroeconomics. It is useful for understanding a wide range of macroeconomic questions. But, it has the shortcoming that it abstracts from the foreign sector. Our next step is to fix this by introducing exchange rates, export and imports. This will allow us to discuss various economic crises that have occurred in recent decades, including the Asian crises of 1997, the Mexican crisis of 1994, and crises in Argentina and Brazil.

Up to this point, the analysis will have focused on the short and medium run only. In the last two weeks of class we will shift gears and study the long run. Here, we'll ask questions like: 'what makes countries grow?', 'are Americans saving enough?'

Schedule

In what follows, the dates for the first and second midterm and the statement about the material covered in those exams, are firm. However, the precise chapters to be covered are indicated as a guide only. I will let you know in class what chapters you are expected to know for each exam.

- Keynesian Cross Model:
March 27, 28, 29, part of April 3: Chapters 1-3.
- IS-LM Model:
April 3, 4, 5, 10, 11: Chapters, 4.1, 4.2, 5.
- April 12: midterm will cover whatever material was covered up to, and including, April 5 lecture.
- AD-AS Model:
April 17, 18, 19: Chapter 6, 7
- Using the Model to Study the Great Depression:
April 24: Chapter 22
- Using the Model to Review Some Policy Debates:
April 25: Chapter 25
- International Economics:
April 26, May 1, 2, 8, 9, 10: Chapter 18, 19, 20, 24.2.
- May 3: midterm will cover whatever material was covered up to, and including, April 26.
- Growth:
May 15, 16, 17, May 22, 23, 24: Chapter 10, 11, 12