

Macroeconomics
Econ 311
Winter, 2004
Christiano

Syllabus

1. General Information.

- Lectures are TTh 9:30-10:50, 107 Harris Hall.
- My office number is 3246, Andersen Hall; Email: l-christiano@northwestern.edu. Office hours: Tuesday, 1:30-2:30, or by appointment.
- Textbook: Macroeconomics, Olivier Blanchard, 3rd edition, Prentice Hall, ISBN 0-13-067100-2.
- TAs: (it's best to first try and contact a TA by email) Martin Bodenstein, AAH 343, email: m-bodenstein@northwestern.edu; Helge Braun, AAH 346, email: h-braun@northwestern.edu; David Lucca, AAH 3202, email: d-lucca@northwestern.edu.
- TA office hours in AAH 328: Bodenstein - F 3-5pm; Braun - TH 6-8pm; Lucca - M 9:30-11:30am.
- Students are expected to attend one recitation section per week. Sections 22, 24, 26 did not meet on January 5, and will instead meet on March 8. Following are the recitation sections:
 - Section 21 Helge F 12:00 TCH L160
 - Section 22 Helge M 12:00 TCH L160
 - Section 23 Martin F 2:00 TCH LG66
 - Section 24 David M 2:00 TCH LG76
 - Section 25 Martin F 12:00 TCH M120
 - Section 26 David M 12:00 TCH M120
- Grades: based on 2 midterms (20% of grade for each midterm), 5 quizzes (20%), homeworks (5%) and a final (35%). Each homework will be graded on a pass/fail basis. The questions will be posted on the web site on Tuesday evening, and will be due the

following Tuesday in the 311 course box in the Economics Department (Andersen Hall). There will be a quiz in each section except the first one and last one, and the sections after the two midterms.

- The midterms are on January 29 and February 19. The final is Thursday, March 18, 12-2pm in 107 Harris Hall (the regular lecture room).

2. Goals.

This course develops a simple framework for thinking about the determinants of variables like aggregate employment, unemployment, investment, consumption, interest rates, inflation, exchange rates and the balance of trade. The framework is used to address issues such as: what is the role of saving in determining the long run wealth of the country; what is the role of money in accounting for inflation; what are the factors accounting for the recurrent fluctuations in employment and output called the business cycle; what factors account for fluctuations in the US dollar; what are the various factors at play in financial crises, such as those experienced in the past decade by Mexico and other countries; what risks, if any, do the high US government deficits pose for the health of the US economy. The course will examine the various sides to debates about questions like these.

3. 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 sophisticated 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:
January 6, 8, part of January 13: Chapters 1-3.
- IS-LM Model:
January 13, 15, 20: Chapters, 4.1, 4.2, 5.
- AD-AS Model:
January 22, 27: Chapter 6, 7.
- January 29: first midterm will cover whatever material was covered up to, and including, January 22 lecture.
- Using the Model to Study Japan in the 1990s, and the U.S. Great Depression:
February 3: Chapter 22
- Using the Model to Review Some Policy Debates:
February 5: Chapter 24, 25
- International Economics:
February 10, 12, 17: Chapter 18, 19, 20.
- February 19: second midterm will cover whatever material was covered up to, and including, February 12.
- Growth:
February 24, 26, March 2, 4: Chapter 10, 11, 12