Macroeconomics
Econ 311
Winter, 2005
Christiano

Syllabus

1. General Information.

- Lectures are MW 8:30-9:50, 217 Fisk Hall.

- My office number is 3246, Arthur Andersen Hall (in The Donald
  Jacobs Center, 2003 Sheridan Road); Email: l-christiano@northwestern.edu.
  Office hours: Monday, 2-3, or by appointment.

- Textbook: Macroeconomics, Olivier Blanchard, 3nd edition, Pren-
  tice Hall, ISBN: 0-13-146225-3, or ISBN: 0-13-067100-2 (the TAs
  and I are using the latter book). You will benefit more from the
  course if you read newspaper articles about the economy.

- Course website: http://www.faculty.econ.northwestern.edu/faculty/
  christiano/c11/c1105/economics_311.htm. Everything about this
  course will be posted here, including the contents of the syllabus,
  lecture handouts, and homework assignments. In addition, I will
  post articles from newspapers and magazines as I come across
  them, together with commentary. There are plenty of intereting
  books on current events, that are related to the subject matter
  of this course. One topic is globalization and interesting books
  (not REQUIRED for this course) include Joseph Stiglitz, Global-
  ization and Its Discontents, and Jagdish Bhagwati, In Defense of
  Globalization. There is not enough time to discuss all topics of
  interest in class. However, anyone with a particular interest can
  talk with me outside class.

- TAs: Helge Braun, office hours: Friday 11.30am -13.30pm in AAH
  328, email: h-braun@northwestern.edu; Jon Huntley, office hours,
  Thursday at 9-10am in AAH 328, email: j-huntley@northwestern.edu;
  Nenad Kos, office hours, Tuesday, 3:30-4:30pm, email: n-kos@northwestern.edu.

- Students are expected to attend one recitation section per week.
  Following are the recitation sections:

- Section 21 F 9:00-10:00 Harris Hall 203
- Section 22 F 3:00-4:00 Harris Hall 308
- Section 23 F 9:00-10:00 Annenberg Hall G32
- Section 24 F 3:00-4:00 Harris Hall 203
- Section 25 F 9:00-10:00 Annenberg 101
- Section 26 F 3:00-4:00 Annenberg 32

- Grades: weekly homeworks, due in Tuesday class each week (10%); first midterm (15%); second midterm (25%); final (50%). Homework questions will be posted on the course web site on Tuesday evening, and will be due the following Tuesday in the 311 course box in the Economics Department (Arthur Andersen Hall).

- The midterms are on January 26 and February 16. The final is Thursday, March 17, 12-2pm in 217 Fisk 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 questions such as: what is the role of household saving in determining the health of the economy, both in the long and the short run; 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 (in particular, why is has the value of the dollar been falling so much?); 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; why are foreigners lending Americans so much and should US citizens worry that foreigners will suddenly change their minds and take their money elsewhere; is globalization good or bad; why did the US Great Depression of the 1930s occur, and could it happen again? We won't give definitive answers to these questions. However, we'll provide a framework for thinking about these questions and for reviewing the various sides in the debates.

3. Course Content

All but the last part 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 recessions that began in July, 1990 and in March 2001. 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. It will also allow us to discuss the huge US current account deficits and the factors underlying the US dollar depreciation.

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?'.

(Preliminary) Schedule

The outline of the course will be completed in the next few days. In any case, the precise chapters and when they are covered are indicated as a guide only. In practice, the material you need to know for a given midterm (each occurs on a Wednesday) is whatever we covered up to and including the previous Friday's recitation. The final will be comprehensive, and cover all material in the course.

- Keynesian Cross Model:

  January 3, 5, part of January 10: Chapters 1-3.

- IS-LM Model:

  January 10, 12, 17: Chapters, 4.1, 4.2, 5.