

Macroeconomics
Econ 311
Winter, 2007
Christiano

Syllabus

1. General Information.

- Lectures are TTh 12:30-1:50, 107 Harris Hall.
- My office number is 3246, Andersen Hall; Email: l-christiano@northwestern.edu. Office hours: Tuesday, 2:15–3:30, or by appointment.
- Textbook: Macroeconomics, Olivier Blanchard, 4th edition, Prentice Hall, ISBN 0131860267.
- TAs: Cosmin Ilut - office hours Monday 1-2pm, email c-ilut@northwestern.edu, office phone number 1-3245; Matthias Kehrig - email mkehgir@northwestern.edu, office hours TBA.
- TA office hours.
- Students are expected to attend one recitation section per week. Cosmin Ilut's section will not meet the first Friday, January 4. The other two sections will meet on January 4. All three sections will meet on January 8. Students should choose a section and sign up with the TA.
 - M 10-10:50, ANN G32, Matthias Kehrig
 - M 1-1:50, TCH M128, Cosmin Ilut
 - M 1-1:50, HRS 307, Matthias Kehrig
 - F 10-10:50, ANN G32, Matthias Kehrig
 - F 1-1:50, TCH M128, Cosmin Ilut
 - F 1-1:50, HRS 307, Matthias Kehrig
- Grades: based on 2 midterms (each is worth 20% of the course grade), homeworks (10%) and a final (50%). Students are encouraged to work on homeworks in groups of up to 4 people. Homeworks will be posted on the web site by Thursday evening, and will be due the following Wednesday by 4:50pm in your TA's mailbox in the Economics Department (Andersen Hall).

- The midterms are on January 30 and February 20, in class. The final is Friday, March 16, 3-5pm in 107 Harris Hall (the regular lecture room).

2. Goals.

We will develop 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 (net exports). 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 determines 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 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, the ‘Asian tigers’ 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 will not give definitive answers to these questions. However, we will 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. As a result, we cannot discuss the rationale for the US central bank’s decision to vigorously drive down interest rates in response to the 2001 recession. So, the next step is

to construct the IS-LM model, which combines the Keynesian Cross Model (that model will end up 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. It too is not sophisticated enough for all of our purposes, since we want to understand the determinants of inflation. This will lead us to think about how prices are determined in the economy 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?'.

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 4, 9, 11: Chapters 1-3.
- IS-LM Model:
January 16, 18, 23: Chapters, 4.1, 4.2, 5.
- AD-AS Model:
January 25: Chapter 6.
- January 30: first midterm will cover whatever material was covered up to, and including, January 25 lecture.
- February 1: Chapter 7.
- Using the Model to Study Japan in the 1990s, and the U.S. Great Depression:
February 6: Chapter 22 (especially 22.2 and 22.3).
- Using the Model to Review Some Policy Debates:
February 8: Chapter 24, 25
- International Economics:
February 13, 15: Chapter 18, 19.
- February 20: second midterm will cover whatever material was covered up to, and including, February 15.
- Growth:
February 22, 27, March 1: Chapter 10, 11.
- March 6: review session.