This course is the second Part of a two-semester integrated sequence in macroeconomics. It is assumed that students enrolled have completed Economics 602 and are, therefore, familiar with:


Selected readings from these texts are indicated below in the course outline and should be treated as optional background reading. Students with weak preparation will definitely want to consult the indicated selections in one or more of these texts.

**Course Requirements:**
There will be two midterms and a comprehensive final examination.
The first midterm will be in late February and the second in late March or early April. Each midterm represents 30 percent of your grade. The final exam counts 40 percent.

**Homework:**
I will hand out several homework problems (review questions) throughout the term which are not to be handed in — they are for your own consumption (investment?)
Students are encouraged to work together on these problems.

**Textbook:**

**Other Readings:**
All the books mentioned in the course outline will be on reserve or I will have the relevant sections at the copy center. Journals are not on reserve but are noncirculating material. Many of the journal articles can also be found at the copy center.

**Course Outline:**
Optional readings are denoted by an *. Background reading is optional depending upon the student's previous exposure to the material. All other readings are required.
I. Introduction and Overview

Turnovský, Chapter 1.

(It is expected that the two readings below will be completed by the end of the term.)


II. Static Income Determination Theory

A. The "IS-LM" Model

Background: Branson (Chapters 3, 4, 5); Gordon (Chapters 3, 4, 5); D-F (Chapters 3, 4).

Turnovský, Chapter 2.


*Hicks, J. R., "Mr. Keynes and the Classics": A Suggested Interpretation," Econometrica, 1937.

B. Formulation of a Consistent Model

Turnovský, Chapter 3 (pp. 36-43 only)


C. The Neoclassical Full-Employment Model

Patinkin, op. cit., Chapter 10-12 (Skip Section 6).


D. Some Keynesian Underemployment Models

Background: Branson (Chapters 6, 7, 8); Gordon (Chapters 6, 7);

D-F (Chapters 11 - 12)

Patinkin, op. cit., Chapter 13 (Sections 1 and 4)

*Bailey, op. cit., Chapter 3

E. Disequilibrium Models


*Patinkin, op. cit., Chapters 13 - 14.
III. Recent Controversies in Monetary and Fiscal Policy

A. Government Borrowing and Wealth Effects

*D*Discussion of Barro in JPE, March/April 1976.
*D*Bailey, op. cit., Chapter 9.

B. The Government Budget Constraint

Turnovsky, Chapter 4.


*JPE, Special Issue on Monetary Theory, Sept./Oct. 1972 — Read J. Tobin (pp. 852-63) and M. Friedman (pp. 912-23) only.

IV. Topics in Inflation Theory

A. The Phillips Curve

Background: Branson (Chapters 17, 18); Gordon (Chapters 8, 9, 10); D-F (Chapter 13).

Turnovsky, Chapter 5.


B. The Effects of Anticipated and Unanticipated Inflation

Turnovsky, Chapter 6 (pp. 104-114 only).
*D*Bailey, op. cit., Chapter 4
*D*Gordon, Chapter 11.

C. Expectations and Economic Policy


D. Government Budget Constraint Dynamics and Inflation


V. Short-Run and Medium Run Dynamics

Turnovsky, Chapters 6 and 7

VI. Continuous Time Analysis

Turnovsky, Chapter 3 (Sections 8-12).

VII. Controllability and Stability in Macromodels

Turnovsky, pp. 308-09 and 333-34.
*Chiang, A., Fundamental Methods of Mathematical Economics, pp. 503-72.

VIII. Long-Run Models

Turnovsky, Chapter 8

IX. The Open Economy

Turnovsky, Chapters 9-12