Overview

Macroeconomics is the study of how resource allocations evolve over time. Since an entire economy is large and complex, macroeconomics simplifies the world by focusing its attention on broad measures of economic activity such as aggregate output growth, interest rates, employment and inflation. It is also the study of how government policy influences the economy. To facilitate this study, we will develop a coherent and internally consistent model economy that is built on the principles of economic theory. Our goal is to use this simple model to understand a certain set of macroeconomic facts. A fairly comprehensive list of these facts is as follows: 1) aggregate output grows, 2) output growth is erratic, 3) employment fluctuates with output, 4) consumption fluctuates less than output, 5) inflation and output fluctuate with the money supply in the short-run, and 6) only inflation fluctuates with money growth in the long-run.

As the title of the course suggests, the emphasis here is on theory. Theory has at its roots, however, application. All theory is applied in that it is created to explain experience, or facts. Economists (unlike some other scientists, but not unlike geologists and atmospheric scientists), rarely have an opportunity to study the world through experimentation. There are no identical worlds available to study the response of the price of a cheeseburger to a doubling in the growth rate of the money supply. Instead we must create artificial economies, or models, to serve as laboratories for "thought experiments." By conducting such experiments, one can ask whether the model delivers the facts that it was created to explain. If not, we question our assumptions and have at it again. My point is this: theory is not optional, it is a requirement. It is also fun. Interesting insights into the world flow from the practice of modeling. That is your reward.
Requirements

There will be a series of four hour-long examinations that all students must write at the scheduled time. These exams are, technically speaking, not comprehensive. However, you will be learning a coherent and unified body of thought so that the material learned for one exam cannot simply be discarded as it provides a foundation for future exams. Each exam is worth 20 percent of your final grade. The first three exams will be held in class on Feb. 6th, Mar. 6th, and Apr. 10th; the fourth exam will be held during finals week on Friday, May 9th.

A problem set will also be assigned before each exam. The four problem sets together contribute the remaining 20 percent of your grade. A portion of each problem set will be dedicated to data exercises that must be executed on a computer. Some basic knowledge of a spreadsheet program (such as Excel™) will be required; no prior experience with a spreadsheet is expected. I will dedicate an entire class period during the early going to explain the basics. Collaboration with your classmates is allowed (although everyone must hand in a solution set).

Regular class attendance is not a formal requirement -- it is merely essential for survival in this course. Do not plan on learning this course from the textbook. It is not a sufficient representation of the course material. I plan to deviate from the text in important ways. I will also present additional material. The real text for the course is your set of lecture notes.

Macro on the Web

I will maintain a course web site throughout the term. (Using the Netscape browser, go to the Department of Economics home page and click on “Courses with Web Sites.” You will then find a link for ECON 3080.) All course documents (including this one!) will be made available electronically at this site. I will also provide links to web sites of related interest (e.g. the Wall Street Journal Interactive Edition). In addition, the U.S. macroeconomic time-series data set necessary for completing the problem sets is also available there. Follow the instructions on the web page for downloading the data. You will need a diskette. There is also a link to my E-mail address. Feel free to use it as an alternative to the telephone. Please reserve questions relating to the course material for the classroom or office hours.
Course Outline and Itinerary

I. Jan 14 - Feb 6.

Introduction; Basic macroeconomic concepts; The economics of Robinson Crusoe;
Intratemporal choice.

Barro; Chs. 1, 2

Exam #1, Thursday, February 6th.

II. Feb 11 - Mar 6.

Intertemporal choice; Consumption smoothing; The basic market clearing model;
The real interest rate and aggregate output.

Barro; Chs. 3-5.

Exam #2, Thursday, March 6th.

III. Mar 11 - Apr 10.

Business cycles; Unemployment; Economic growth.

Barro; Chs. 9-11.

Exam #3, Thursday, April 10th.

IV. Apr. 15 - May 1.

Inflation; Government purchases; Inflation-output tradeoffs.

Barro; Chs. 7, 8, 12, 18-20.

Exam #4, Friday, May 10th.