

Macroeconomic Theory

ECON 330D2 Section 2

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McGill University
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Course description and objectives

ECON 330D is a two-term course in macroeconomics. 330D1 is the first term of 330D and is a pre-requisite for 330D2, the second term of 330D. No credit will be given for ECON 330D unless both ECON 330D1 and ECON 330D2 are successfully completed in consecutive terms.

The first term focuses on the fundamentals of macroeconomic models. Particular attention will be paid to developing a one-period static model and a model of economic growth. The second part of the course will build on these fundamental building blocks to develop a two-period dynamic model of the macroeconomy and a static search model of unemployment. Each time we develop a model we will use it to study issues focusing on economic policy.

Prerequisites: Econ 330D1. By faculty policy, this course is only open to students who took Section 2 of Econ 330D1 in the Fall 2022 term.

No credit will be given for this course unless both Econ 330D1 and Econ 330D2 are successfully completed in consecutive terms.

In terms of mathematics, I will use calculus very sparingly and only if necessary. The use of calculus, therefore, should definitely not worry you. But, realize that the kind of reasoning that we will use throughout the course follows mathematical logic. As a matter of fact, it is exactly that kind of reasoning that I hope you will learn from this course. The difference to a math course lies in the assumptions that we make and in the interpretation of the equations. Because this type of reasoning is new to most of you, I encourage you strongly to engage with the material throughout the course, instead of cramming and memorizing.

Administrative Issues

3 credits

6 credits for Econ 330D1 and Econ 330D2 jointly, upon successful completion of Econ 330D2.

Course delivery: 2 in-person lectures per week, Wed and Fri 1:05pm-2:25pm, in Wong 1020.

Contact:

course email: e330winter2023@gmail.com

my email: markus.poschke@mcgill.ca

office hours: Wed 2.30-3.30pm in Leacock 537.

TA: *tba.*

Text and learning tools:

- The **textbook** for this course is *Macroeconomics* (6th Canadian Edition) by Stephen Williamson, published by Pearson Education Canada. This textbook contains most of the course material, and we will follow it fairly closely. If you have another edition of this book, feel free to use it. But you are responsible to know the discrepancies between editions.
- The text comes with access to an online site MyEconLab, at www.myeconlab.com, where you will find explanations for a selection of end-of-chapter text exercises/questions and some short practice quizzes. When using MyEconLab you will be asked for the course name ('Econ 330 Section 2 Winter 2023') and Course ID (poschke65179).
- There will also be some readings supplementary to the textbook. These will be made available electronically (on mycourses) at the appropriate time.
- You may also find the book *Intermediate Macroeconomics* by Garin, Lester, and Sims useful. It is freely accessible on Eric Sim's webpage, [here](#).

In addition, continuous class attendance is strongly encouraged. Any points raised in class can end up in the examinations.

MyCourses: You should regularly check the **myCourses** page for announcements, up-to-date information, additional readings, conference topics, and other items to assist you in the course. Through this web page you will also be able to ask questions and receive answers from your fellow students in the course.

Communication policy: If you have a question, it is likely that others also have it. So the preferred means of communication are *discussion boards* set up in *mycourses*, organized by general topics. Please consult those first if you have a question. If your question has not already been asked, please post your question there and we will aim to answer within 48 hours. I encourage you to answer other students' questions if you know the answer (I will monitor Q&A for accuracy and courtesy).

For matters related to the course that are not appropriate for the discussion boards, write to the course email.

For questions that require confidentiality and/or discussion, please see me during office hours.

Email me only as a last resort, for issues that cannot be addressed via discussion boards, the course email, or office hours. For email, use your McGill email address only.

Office Hours: The TA and I will hold weekly office hours. In the TA office hours, the TA will be available to answer your questions, help you to review the course material, and help you solve problems and exercises. More information on TA office hours will be published on *myCourses* around the third week of classes. If you find that the office hours offered are not enough, please email the course email: e330winter2023@gmail.com.

Lecture Style and Student Expectations: My lecture style focusses on deep understanding of concepts and the intuition behind results, more than mechanics. My exams tend to reward those who are sufficiently knowledgeable of the underlying concepts and have developed an intuitive approach to the material. Memorisation is almost never rewarded.

To give you the best chance for success in my course, I strongly encourage you to come prepared and on time, avoid absences, participate regularly with a positive attitude, read the relevant materials before class, dress appropriately and identify problems and seek help as soon as they occur.

Evaluation

This is the second term of a two-term course (both terms should be taken in order to receive credit) and this term accounts for 50% of the year grade. During this semester, there will be two midterm exams, each worth 25% of the term grade, and a final exam (scheduled by McGill), which will be worth 50% of your term grade. All exams are closed book and in person.

The **midterm exams** will take place **in class** at the specified dates (see below) during class time. There will be no lecture that day. You will have 75 minutes to complete the exam. Anticipated dates for the exams:

- Midterm 1 on Friday February 10 (during class time).
- Midterm 2 on Friday March 17 (during class time).

The **final exam** will be held in person. It will be a 3-hour exam and will take place in the exam period in April, at the date specified by McGill.

Students enrolled in this section of 330D2 cannot take the final exam in any other section of 330D2.

Missed tests: The weight of a midterm, if missed for any reason (eg, illness, technical, religious, work obligation, exam scheduling conflict, etc.), is shifted automatically to the final exam. There are no makeup, alternate or deferred midterms under any circumstances, nor may they be written early.

If you miss, or cannot write, the final exam, you must request a deferred exam according to the process described here. Final exam accommodations are almost never approved for reasons relating to personal vacation/travel or family events.

Grading: If you have any concerns regarding grading please get in touch with me. Mistakes in tallying scores would be corrected immediately. If you have other concerns about grading, please let me know. In such a case you must submit your entire exam for a regrade. Requests to regrade specific questions only will not be entertained.

Under no circumstances will you be allowed to present additional work to increase your grade in the course.

Supplemental examination: For those eligible, this will cover material from 330D1 and 330D2. It will be held in August 2023. Both courses will be equally weighted in the supplemental. This exam will count for 100% of the supplemental course grade.

Preparation for exams: You are primarily tested on the material covered during lectures and the assigned exercises. Attending lectures, taking good notes, and doing the exercises are thus excellent methods of preparation. Discussing the material with your peers can be very useful as well. I also encourage you to use the TAs office hours if you are having difficulties or you just want to exchange thoughts and ideas.

University statements

McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see <http://www.mcgill.ca/students/srr/honest/> for more information).

L'université McGill attache une haute importance à l'honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l'on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l'étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter le site <http://www.mcgill.ca/students/srr/honest/>).

In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

Conformément à la Charte des droits de l'étudiant de l'Université McGill, chaque étudiant a le droit de soumettre en français ou en anglais tout travail écrit devant être noté.

Under no circumstances will you be allowed to present additional work to increase your grade in the course.

As the instructor of this course I endeavor to provide an inclusive learning environment. However, if you experience barriers to learning in this course, do not hesitate to discuss them with me and the Office for Student Accessibility and Achievement (formerly Office for Students with Disabilities).

No audio or video recording of any kind is allowed in class without the explicit permission of the instructor. The use of Mobile Computing and Communications Devices must, in all cases, respect policies and regulations of the University, including in particular the Code of Student Conduct and Disciplinary Procedures; the Policy Concerning the Rights of Students with Disabilities; and the Policy on the Responsible Use of McGill IT Resources.

I strongly encourage you to put away other mobile computing and communications devices during class. In other words, you may need your laptop but you can still close the other tabs in your web browser and turn off/put away your phone. I work hard to create a collaborative learning environment, and I expect everyone in the room to be present and to contribute. An increasing number of high-quality studies show that the use of laptops, tablets, and smartphones in an in-person classroom reduces learning both for the student using the device and those around them. Multitasking is bad for the quality and efficiency of cognitive work. Reviews of this evidence are [here](#) and [here](#).

Instructor generated course materials (e.g., handouts, notes, summaries, exam questions, lecture and class recordings etc.) are protected by law and may not be copied or distributed in any form or in any medium without explicit permission of the instructor. Note that infringements of copyright can be subject to follow up by the University under the Code of Student Conduct and Disciplinary Procedures.

End-of-course evaluations are one of the ways that McGill works towards maintaining and improving the quality of courses and the student's learning experience. You will be notified by e-mail when the evaluations are available. Please note that a minimum number of responses must be received for results to be available to students.

The reading list is subject to change during the semester. In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

Course Outline

The following is an overview of what we expect to cover. The time we spend on certain issues may change as we find the right pace for the course and as a result, more or less may be covered than is presented in this overview.

- A Two-Period Model: The Consumption-Savings Decision and Credit Markets (Ch. 9)
- Credit Market Imperfections: Credit Frictions, Financial Crises, and Social Security (Ch. 10)
- A Real Intertemporal Model with Investment (Ch. 11)
 - A model combining the one- and two-period models studied in the Fall
 - Comparative statics of the model
- A Monetary Intertemporal Model (Ch. 12, parts of Ch. 18)
 - Introduces money into the intertemporal model
 - Derive the Fisher relationship
 - Money is neutral
 - Conventional monetary policy is ineffective
 - Explain unconventional monetary policies
- Business cycle facts (Ch. 3)
 - Behavior of Key Macroeconomic Variables
- Business Cycle Models (Ch. 13)
 - The Real Business Cycle model
 - The New Keynesian model
 - How do the models fit the data?
 - The role of government policy: fiscal and monetary policy.
- Inflation: Phillips Curves (Ch. 14)
 - Phillips curves
 - Inflation in a basic New Keynesian model
 - New Keynesian rational expectations model
- Money and Inflation: A deeper look (Ch. 17)
 - Alternative forms of money
 - Anticipated inflation and the Friedman rule
 - The fiscal theory of the price level

- Financial Intermediation and Banking (Ch. 18)
 - Key properties of assets
 - The Diamond-Dybvig model: the role of financial intermediaries in the economy
 - The role of deposit insurance and the too-big-to-fail problem.
- International Trade and Money in the Open Economy