Macroeconomic Theory
ECON 330D2

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McGill University
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Course description and objectives

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

The first term focussed on the fundamentals of a macroeconomic model. This term, we will build on this to look at some more specific issues that are at the heart of macroeconomics, such as economic growth, business cycles, monetary and fiscal policy, inflation, trade and unemployment. While the focus is on theory, this will always be connected to core features of macroeconomic data. We will also discuss aspects of recent events and policy responses in the light of theory.

Administrative Issues

3 credits
2 lectures per week, Tue and Thu 2.35-3.55pm in ENGTR 0100

Contact:
email: markus.poschke@mcgill.ca
office hours: Wed 15.15-17.15 in Leacock 320. Please sign up beforehand on the sheet I'll post on the office door.

Content: The textbook for this course is *Macroeconomics* (Third Canadian Edition) by Stephen Williamson, published by Pearson Education Canada. We will also cover some material from the second edition. Both editions are on reserve in the library. The two editions are overall very similar, except for slight differences in some key areas. You may also find the associated Study Guide useful.

There will also be some readings supplementary to the textbook. These will be made available electronically (on the course's "mycourses" page) at the appropriate time. In addition, continuous class attendance is strongly encouraged. Any points raised in class can end up in the examinations.

Finally, I will occasionally post links to news articles on Twitter (@mposchke) or on "mycourses". These are for your background information and not required reading, except for the ones that I may from time to time discuss in class.

Grading: The grade for the entire two-term course will be based on the performance in both terms. The grade for the second term will be calculated based on your performance in the midterm exam, the final exam, and a set of problem sets.

The midterm will take place in class on Thursday, February 21. The final exam is administered by the university; its time and location will be announced before the exam period.

The midterm is optional, but I strongly recommend taking it. If you do not take the midterm or perform better in the final than in the midterm, the weight of the midterm is shifted to the final. If you do take the midterm and perform better in it than in the final exam, the midterm accounts for 30% and the final for 60% of the grade for this term. The remaining 10% are accounted for by problem sets (see below).

In case of absence at the final exam for medical reasons, please refer to the University Regulations Concerning Final Examinations. Note: According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the Calendar, section 4.7.2.1, General University Information and Regulations at www.mcgill.ca. Also note: 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. Finally: In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

Problem Sets, Conferences: I will provide four problem sets. Of these, two will be graded and together account for 10% of the grade for the term, and two will be for your practice only. The TA will discuss the solutions to all problem sets in conferences. Note that conference participation is much more productive if you actually worked on the problem set. Conference attendance is not required but strongly encouraged.

Tentatively, the for-credit problem sets will be due on Feb 14 and on Apr 4 in class and will be posted a week in advance. To solve the problem sets, you are encouraged to work in groups of up to four students. (Hand in one solution per group.) Each problem set will have several questions (typically about 3, with subquestions) but only a subset of these questions will be graded. The questions to be graded will be determined randomly. No late problem sets will be accepted.

"mycourses": I will use "mycourses" for posting relevant materials such as readings and problem sets and for making announcements. You should therefore regularly check the course's "mycourses" page.

Academic Integrity: Cheating is bad, everywhere and always. It is your responsibility to understand what is meant by "cheating" at McGill, and thus what behaviour is unacceptable. I am required to have the following statement on the course outline, in both official languages:

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/).

Rough Course Outline

Readings from Williamson are indicated and are obligatory. Some of the additional readings listed below are optional and indicated for those who want to delve deeper. I will indicate in class which ones are obligatory. Additional readings may be required and will be made available electronically via "mycourses" at the appropriate time.

Due to time constraints, it is possible that some topics will not be covered or some topics added. I maintain discretion regarding changes in this outline. Any changes will be discussed in class and/or announced on "mycourses".

1. Economic growth (Ch. 6, 7)

   (a) facts: income differences across countries and over time (Maddison 2001, read Ch. 1, browse rest)

   (b) Solow model and growth accounting: the sources of growth (Solow 1957, Easterly and Levine 2001, Hall and Jones 1999)

   (c) Endogenous growth theory (Jones 1995)

2. Money and business cycles (Ch. 10-12, 15, 17)

   (a) Review of the model from the first term. Does it help us understand recent events?

   (b) A monetary model

   (c) Real Business Cycle theory (Plosser 1989)

   (d) Keynesian business cycle theory (Mankiw 1989)

   (e) Model evaluation and some business cycle accounting (Shimer 2009, Ohanian 2010)

   (f) Money, Inflation, Central Banking (Bernanke and Mishkin 1997, Sargent 2008)

   (g) Financial frictions and the recent crisis (Hall 2010, Woodford 2010, Ohanian 2010)

3. International macroeconomics (Trade and Money in the open economy, Ch. 13, 14)

4. Unemployment (Ch. 16)

References

Bernanke, B. and Mishkin, F. (1997), 'Inflation targeting: A new framework for monetary policy?', *The Journal of Economic Perspectives* **11**(2), 97–116.

Easterly, W. and Levine, R. (2001), 'What have we learned from a decade of empirical research on growth? It's Not Factor Accumulation: Stylized Facts and Growth Models', *The World Bank Economic Review* **15**(2), 177–219.

Hall, R. E. (2010), 'Why does the economy fall to pieces after a financial crisis?', *Journal of Economic Perspectives* **24**(4).

Hall, R. E. and Jones, C. I. (1999), 'Why Do Some Countries Produce So Much More Output Per Worker Than Others?', *The Quarterly Journal of Economics* **114**(1), 83–116.

Jones, C. (1995), 'R & d-based models of economic growth', *The Journal of Political Economy* **103**(4), 759–784.

Maddison, A. (2001), *The World Economy: A Millennial Perspective*, Organisation for Economic Co-operation and Development.

Mankiw, N. G. (1989), 'Real business cycles: A new keynesian perspective', *Journal of Economic Perspectives* **3**(3), 79–90.

Ohanian, L. (2010), 'The economic crisis from a neoclassical perspective', *Journal of Economic Perspectives* **24**(4).

Plosser, C. (1989), 'Understanding real business cycles', *Journal of Economic Perspectives* **3**(3), 51–77.

Sargent, T. J. (2008), 'Evolution and intelligent design', *American Economic Review* **98**(1), 5–37.

Shimer, R. (2009), 'Convergence in macroeconomics: The labor wedge', *American Economic Journal: Macroeconomics* **1**(1), 280–297.

Solow, R. (1957), 'Technical change and the aggregate production function', *The Review of Economics and Statistics* **39**(3), 112–120.

Woodford, M. (2010), 'Financial intermediation and macroeconomic analysis', *Journal of Economic Perspectives* **24**(4).