

# Macroeconomic Theory – Majors 2

## ECON 333

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McGill University  
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### Course description and objectives

Econ 333 is the second course in macroeconomics. It closely builds on Econ 332, which is a prerequisite for this course. Normally, you should take the two courses in consecutive terms.

Econ 332 focuses on the fundamentals of macroeconomic models, and pays particular attention to developing a one-period static model and a model of economic growth. Econ 333 builds 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, like monetary and fiscal policy, inflation, unemployment, etc..

The course aims to give you an in-depth and somewhat sophisticated understanding of macroeconomic phenomena, events, and policies. You will also learn to use a model of intermediate complexity to analyze real-world events – a skill that is also useful in other contexts.

**Prerequisites:** Econ 332.

In addition, this course is designed for a student who has successfully completed ECON 230 or ECON 250.

In terms of mathematics, I will algebra freely, and 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

**Course delivery:** 1 in-person lecture per week, Fri 11:35pm-2:25pm, in STBIO S1/4.

**Contact:**

course email: e333winter2024@gmail.com

my email: markus.poschke@mcgill.ca

office hours: Tuesdays, 10.30am-noon, Leacock 537.

TAs (email and office hours):

- Isabella Germinario, isabella.germinario@mail.mcgill.ca.
- Amirhossein Rafati, amirhossein.rafatisahnehsaraei@mail.mcgill.ca, office hours Wed and Thu, 10-11am, location *tba*
- Jacqueline Wang, jiaxin.wang4@mail.mcgill.ca, office hours *tba*

**Text and learning tools:**

- The **textbook** for this course is *Intermediate Macroeconomics* by Garin, Lester, and Sims (GLS, hereafter). You can freely download it from <https://sites.nd.edu/esims/textbook/>. I will also make my lecture slides, which will be based on the book, available.
- 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 *Macroeconomics* (6th Canadian Edition) by Stephen Williamson useful. We used it in past editions of this course.

Continuous class attendance is strongly encouraged. Any points raised in class can end up in the examinations.

**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.

**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.

**TAs:** Two TAs will hold weekly office hours (two hours per week and TA). In these sessions, they will be available to answer your questions, help you to review the course material, and help you solve problems and exercises. The times and locations will be included in this syllabus soon.

The week before an exam, the regular 2-hour office hours will be replaced by a 3-hour conference/office hour. In this sessions the TAs will review some of the material for the exam for roughly one hour and then spend the remaining two hours answering questions. The material reviewed for each exam in the corresponding three TA conferences (for instance, for the midterm) will be identical, so if you choose to attend them, you will have to attend only one.

For any questions about the course that you did not have time to ask in the lecture or in office hours, you can use the course email [e333winter2024@gmail.com](mailto:e333winter2024@gmail.com). The TAs and I will be answering questions sent to this email address.

## Evaluation

Grading components are as follows:

1. Problem sets (10%).
2. Midterm (30%) on Friday **February 23** (during class time).
3. Final exam (60%)

This weighting cannot be changed.

All exams are closed book and in person.

The **midterm exam** will take place **in class** at the specified date during class time. On that day, class will consist of the exam only. For reasons of space, the class will be split into two separate groups for the exam, taking the exam at 11.35am and at 1.00pm respectively. You will have 75 minutes to complete the exam.

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.

There will be five problem sets. Expected due dates as of now are Jan 19, Feb 16, Mar 15, Mar 29 and Apr 12. Problem sets will be made available through *mycourses*, about a week before the deadline. You will need to upload your answers as a single pdf document in the Assignments

section of *mycourses*. While I strongly encourage you to work on the problem sets in groups, each student in a group needs to upload their own solution. Note that some of the material in a problem set may be covered in class after its release (but before its due date). The main objective of the problem sets is to prepare you for the exams. Grading of problem sets will be pass/fail.

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

**Missed tests:** If you miss the midterm exam for medical reasons you will be eligible for a deferred midterm exam, if and only if you provide me an electronic copy of a doctor's note by the Tuesday following the midterm exam. The deferred midterm will probably take place a week after the original one.

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.

**Supplemental examination:** A supplemental examination for those eligible will be held during the supplemental exam period. This exam will count for 100% of the course grade.

**Regrading policy:** If you believe that there is a mistake in grading your exam, you must provide the TA with a written appeal which clearly points out the mistake(s) you believe were made. This appeal should be emailed to the TA to get a record of the date of the appeal. Unless there is an obvious typo, we will regrade the entire exam (notice that you could end up with a lower grade). If after the regrade you are still convinced that there is a mistake, you can provide a second written appeal, this time directly to me, which clearly point out the mistake(s) you believe were made, and a copy of the content of the first appeal. Finally, you have to ensure that the appeals are done in timely manner. Your first appeal must take place during the first seven (7) days following the date when the exam was officially handed back.

## 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 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.

- Class 1: Introduction and review (Ch. 9, 12)
  - Static model of consumption and leisure
  - 2-period model of consumption and saving
- Classes 2-3: The neoclassical model (Ch. 11, 13, 14, 18, 19)
  - Equilibrium
  - The government and fiscal policy
  - What is money?
  - Introducing money in the model
  - The medium run: a frictionless model of the macroeconomy
- Classes 4-5: Money and equilibrium (Ch. 15, 21)
  - Equilibrium efficiency
  - Inflation
  - Nominal and real variables
- Class 6: The Real Business Cycle Model (Ch. 20, 22)
  - Can the model match business cycle facts?
  - Criticisms and a defense
- Classes 7-9: The New Keynesian Model and monetary policy (Ch. 24-28)
  - Demand and supply in the short run (when prices are sticky)
  - Effects of shocks
  - Adjustment over time
  - The Phillips curve
  - Monetary policy: reaction to shocks; price stability; the Taylor rule
- Class 10: Job search and unemployment (Ch. 17)
  - Richer models of unemployment
- Classes 11-13: Money, financial factors, and the macroeconomy (Ch. 32-34, 36, 37)
  - Money creation

- Liquidity transformation and bank runs
- Bonds and interest rates
- Financial factors and the macroeconomy
- Financial Crises and the Great Recession