

Wilfrid Laurier University
Department of Economics
EC640: Macroeconomics I
Fall 2007

Instructor

Sharif Khan

Ph.D. Candidate, Queen's Economics Department

Office: P2056

Phone: 519-884-0710, EXT 2270

Email: shkhan@wlu.ca

Website: <http://qed.econ.queensu.ca/pub/students/khans/>

Lecture Hours and Location

Tuesdays and Thursdays 11:30 – 12:50 p.m., P1021

Office Hours

Tuesdays and Thursdays 1:00pm-2:00m, or by appointment

Course Webpage

Click on the link for this course posted on the instructor's website:

<http://qed.econ.queensu.ca/pub/students/khans/> .

The course outline, assignment questions, solutions to optional assignments and solution to mid-term exam will be posted on the course webpage. Important announcements concerning the course will also be posted there.

Course Objective:

This course studies issues of long-run economic growth and short-run business fluctuations, and emphasizes the application of modern macroeconomic models to explain current fiscal and monetary policies.

Textbook:

Romer, D. (2006) Advanced Macroeconomics, third edition, McGraw-Hill.

References:

Blanchard, O.J. and S. Fischer, (1989) Lectures on Macroeconomics, MIT Press.

Jones, C.I., (2002) Introduction to Economic Growth, second edition, Norton.

Lucas, R.E., Jr., (1987) Models of Business Cycles, Basil Blackwell.

Obstfeld M. and K. Rogoff. (1996) Foundations of International Macroeconomics, MIT Press.

Sargent, T.J. (1987) Dynamic Macroeconomic Theory, Harvard University Press.

EVALUATION

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|---|-----|
| Four Optional Assignments (You do NOT have to Submit) | 0% |
| Conference (format and requirements will be discussed in class) | 15% |
| Mid-term Exam | 35% |
| Final Exam (comprehensive) | 50% |

The course grade will be determined by the following rule:

Course Grade = maximum {(15% of Conference + 35% of Midterm + 50% Final), (15% of conference + 85% of Final)}

Students **must** write both the midterm exam and final exam to pass this course. If a student misses the midterm exam due to acceptable medical reasons or unavoidable circumstances, the weight of his or her midterm exam will be added to the final exam. Students must report to me the reasons of not writing the midterm exam prior to the exam date or immediately after the exam.

ACCESSIBLE LEARNING STATEMENT

Students with disabilities or special needs are advised to contact Laurier's Accessible Learning Centre for information regarding its services and resources. Students are encouraged to review the Calendar for information regarding all services available on campus.

ACADEMIC AND RESEARCH MISCONDUCT

You are reminded that the University will levy sanctions on students who are found to have committed, or have attempted to commit, acts of academic or research misconduct. You are expected to know what constitutes an academic offense, to avoid committing such offenses, and to take responsibility for your academic actions. For information on categories of offenses and types of penalty, please consult the relevant section of the Undergraduate Academic Calendar. If you need clarification of aspects of University policy on Academic and Research Misconduct, please consult your instructor.

Wilfrid Laurier University uses software that can check for plagiarism. Students may be required to submit their written work in electronic form and have it checked for plagiarism.

Course Outline: (starred readings are required materials)

Part I. Recent Perspectives on Macroeconomic Theory and Policy

*Chari V.V. and P. Kehoe, (2006) "Modern Macroeconomics in Practice: How Theory is Shaping Policy," *Journal of Economic Perspectives*, vol. 20 (4), p.3-28.

"The Macroeconomist 21as Scientist and Engineer" by N. Gregory Mankiw, *Journal of Economic Perspectives*, vol. 20 (4), Fall 2006, pp. 29-46

*"The Transformation of Macroeconomic Policy and Research," Nobel Lecture by Edward C. Prescott, *Journal of Political Economy*, vol. 114 (2), April 2006, pp. 203-235

Part II. Economic Growth

1. Introduction

* Jones, Chapter 1.

2. The Neoclassical Growth Models

A. The Solow Growth Model

* Romer, Chapter 1.

* Jones, Chapters 2 and 3.

Mankiw, G., D. Romer, and D.N. Weil, (1992) "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, vol.107, p.407-437.

B. The Ramsey-Cass-Koopmans Model

* Romer, Chapter 2A.

Blanchard and Fischer, Chapter 2.1 - 2.3.

C. The Diamond Model

* Romer, Chapter 2B.

Blanchard and Fischer, Chapter 3.1 - 3.2.

3. The New Growth Theory

Jones, L.E. and R.E. Manuelli, (1997) "The Source of Growth," *Journal of Economic Dynamics and Control*, vol.21, p.75-114.

A. The AK Model

* Obstfeld and Rogoff, p.473-478

McGrattan, E.R. (1998) "A Defense of AK Growth Models," *Federal Reserve Bank of Minneapolis Quarterly Review*, vol. 22, no. 4, p.13-27.

B. The Research and Development Models

* Romer, Chapter 3A: 3.1-3.7

Jones, Chapters 4 and 5.

C. The Human Capital Model

* Romer, Chapter 3B: 3.8-3.9

Part III. Short-Term Economic Fluctuations

1. Real Business Cycle Theory

* Romer, Chapter 4.1 - 4.5, 4.8, 4.10, and Chapter 7.5

* Obstfeld and Rogoff, p.715-722

Lucas, Sections II and III

Blanchard and Fischer, Chapter 7

Sargent, Chapter 1

"Finn Kydland and Edward Prescott's Contribution to Dynamic Macroeconomics,"
Advanced Information on the Bank of Sweden Prize in Economic Sciences, 2004.

Prescott, E.C., (2006) "Nobel Lecture: The Transformation of Macroeconomic Policy
and Research," Journal of Political Economy, vol. 114, no.2, p.203-235.

Mehra, R.,(2006) "Recursive Competitive Equilibrium," NBER Working Paper 12433.

2. Keynesian Theories of Fluctuations

A. Keynesian Theories of Fluctuations

* Romer, Chapter 5

B. Microeconomic Foundations of Incomplete Nominal Adjustment

* Romer, Chapter 6A: 6.1-6.3

Lucas, R. E. Jr., (1996) "Nobel Lecture: Monetary Neutrality," Journal of Political
Economy, vol.104, no. 4, p.661-682.

Howitt, P., "Edmund Phelps: Macroeconomist and Social Scientist," Scandinavian
Journal of Economics, vol. 109, p. 203-24.

Part IV. Unemployment

* Romer, Chapter 9.1 - 9.3, and 9.5 - 9.6.

Blanchard and Fischer, Chapter 9.1 - 9.4.

Lucas, Section V.

1. Efficiency-Wage Models
2. Contracting Models

Part V. Inflation

* Romer, Chapter 10.1, and 10.4 - 10.8

1. The Dynamic Inconsistency of Low-Inflation Monetary Policy
2. Seignorage and Inflation

Part VI. Fiscal Policy

* Romer, Chapter 11.1-11.4.

NOTE: Additional readings, if necessary, will be assigned during the semester.

TIPS TO DO WELL IN THIS COURSE

- Attend all the lectures and actively participate in class. Feel free to ask as many questions as you want in the class. There is no 'stupid question' in my class.
- Read the textbook and other assigned readings between the lines and go through your lecture notes from the class. If you have any questions, please ask me during my office hours.
- Do all the assignments. Assignments are meant for helping you understand the course materials and prepare you for the exams.
- Go through the solutions to all assignments and mid-term carefully. If you face any problems, feel free to stop by during my office hours.