

Economics 331

Spring 2012

Instructor: Pavel Kapinos

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TuTh 10:10-11:55

Willis 211

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Syllabus for Intermediate Macroeconomic Theory:

Required Text: Jones, Charles (2011). *Macroeconomics*, 2nd ed. W. W. Norton.

Recommended Text: Carlin, Wendy and David Soskice (2006). Macroeconomics: Imperfections, Institutions & Policies. Oxford University Press.

Class: The primary objective of this course is to develop mathematical techniques that macroeconomists routinely use in theoretical work. Much attention will be paid to rudimentary dynamic optimization and (to a lesser extent) log-linearization of non-linear models. Students are expected to be familiar with principles-level macroeconomic models and Excel®. Class participation is required and feedback on the pace of the course is more than welcome.

Grading: Your course grade will be based on two midterms (20% and 25%), cumulative final (35%), weekly problem sets (10%), and class participation (10%). Complaints about apparent grading errors will be considered, but requests for "extra credit" or other special consideration in assigning grades must regrettably be ignored. Problem sets covering the material for a given week will be posted by midnight on Thursday of that week and will be due at the beginning of class the following Thursday. Exceptions to this rule will be problem sets that are due during Weeks 4, 8, and 10—they will be due on Tuesdays of that week.

Assignments (problem sets) that are turned in late will be penalized at the rate of 25% for every 6 hours past the deadline. Midterm I will take place in class on Thursday, April 19; midterm II will take place in class on Thursday, May 17; the date for the final is to be determined.

Outline: This is a very rough synopsis of our agenda for the term. Note that all lecture notes will contain specific references to textbook materials. The course is tentatively divided into four major parts:

- I. Mathematical Methods in Macroeconomics: We will spend the first two lectures reviewing material that you've already seen in Price Theory and adapting it for the purposes of this class. First, we'll introduce issues related to maximizing economic welfare in the context of intertemporal utility maximization problem. Second, we'll point to general equilibrium as the dominant paradigm for constructing macroeconomic models and will consider two methods of solving such models: competitive equilibrium and social planner. Third, we'll discuss sources of market failure and explore policy intervention as a means of correcting market failure.
- II. Neoclassical Block:
 - a. Economy in the Long Run—Growth Theory: We will cover several models that describe different features of economic growth: Malthusian, Solow, endogenous. The primary emphasis will be placed on the Solow growth model.
 - b. Economy in the Short Run—Real Business Cycles: We will discuss how slightly modified versions of the growth models studied in the previous subsection can be used to describe short-term macroeconomic fluctuations under the assumption of perfect price flexibility.
- III. Economy in the Short Run—New Keynesian Block: We will introduce nominal frictions into the microfounded models similar to the ones that we will have studied in Part II. We will then study how the economy responds to different exogenous shocks and how policy-makers may improve macroeconomic performance. Our primary focus will be on the conduct of monetary policy and its social welfare.
- IV. Fiscal Policy: Although we'll see glimpses of fiscal policy throughout the course, we will spend about two lectures focusing on the long-run evolution of fiscal variables.
- V. Open-economy Macroeconomics: We will extend our analysis from Part III into the open-economy context and will examine how the US economy interacts with other countries.