

PUBPOL556: MACROECONOMICS

Gerald R. Ford School of Public Policy, University of Michigan

Winter 2007 Course Information and Reading Assignments

ADMINISTRATIVE INFORMATION:

Schedule: M/W 1:00-2:30
Location: Weill 1220
Instructor: Kathryn Dominguez
Office Hours: Fridays from 2-4pm in 3306 Weill. Phone: 764-9498;
Email address: kathrynd@umich.edu
Course webpage: <http://www-personal.umich.edu/~kathrynd/spp556page.htm>
Grading: Group Project: 20%; Mid Term: 35%; Final Exam: 45%

COURSE DESCRIPTION:

This course will teach students the basic tools of macroeconomics and apply them to real world economic policy. The goals of the course are for students to (a) understand how to evaluate macroeconomic conditions such as unemployment, inflation, and growth (b) understand how monetary policy and fiscal policy can be used to influence macroeconomic conditions (c) understand media accounts of macroeconomic events. The course will cover a broad range of topics in macroeconomic policy. Examples of issues to be discussed include the role of fiscal and monetary policies in stabilizing the economy, the relationship between inflation and unemployment, the role of government policy in promoting long-term economic growth, monetary and fiscal policies in an open economy, deficits and debt, and European Monetary Union.

The course will be structured around the tools (models) of macroeconomics, using primarily graphs, and occasionally equations. However, motivation for these tools, and examples of their use will always be taken from current and recent real-world macroeconomics events and conditions.

COURSE PREREQUISITES:

PUBPOL555 or Economics 401 (Intermediate Microeconomics), or the equivalent, and graduate standing.

COURSE REQUIREMENTS:

Assignments: There are five problem sets and a group project. The problem sets involve both short essays and solving problems. You are strongly urged to form study-groups to work on these assignments which will not be graded.

The group project will be an assessment of the recent macroeconomic performance and current macroeconomic problems in a particular country. See <http://www-personal.umich.edu/~kathrynd/pubpol556project.pdf> for more detailed information regarding the group project. Students who are concurrently taking PUBPOL542 need only do one group project for both classes.

Midterm Exam: There will be an in-class (closed-book and closed-notes) Midterm exam. It will cover the first half of the course. I will distribute three questions the week before the Midterm; the Midterm will consist of one of these questions and one "new" question.

REQUIREMENTS (cont.):

Final Exam: There will be an in-class (closed-book and closed-notes) Final exam (on the last day of class, April 16th). It will cover the full course, though with emphasis on the material covered in second half of the course. I will distribute three questions the week before the Final, the Final exam will consist of one of these questions and one "new" question.

Class Participation: Participation in class discussions is highly recommended.

If you believe you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of this course may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations. I will treat any information you provide as private and confidential.

COURSE READINGS: The main *required* textbook for this class is:

Mankiw, N. Gregory, Macroeconomics, Sixth Edition, New York: Worth Publishers, 2007.

Students may use earlier editions of the textbook (though be aware that chapter numbering may have changed across editions). Also you may purchase the book either with or without the MacroBytes computer software, which is optional. No required assignments will use the software, but some students have found it useful in the past.

Many of the required and supplementary readings are available off the web. Assignments, some of the readings, and this reading list can be downloaded from the course webpage:

<http://www-personal.umich.edu/~kathrynd/spp556page.htm>

NOTE: Journal of Economic Perspectives (JEP) articles published prior to 2003 are available online (on UM computers) from JSTOR <http://www.jstor.org/browse/08953309?config=jstor>; and JEP articles published after 2003 are available online (on UM computers) from the JEP website:

<http://www.aeaweb.org/jep/contents/previss.html> using IngentaSelect (click on the article you want and then click on "online viewing options for institutional subscribers").

In addition to the listed course readings (attached), students are urged to stay up-to-date with current events in international financial markets. Subscription forms for special student rates for home delivery of the WSJ, FT and Economist are available online at:

WSJ: https://users1.wsj.com/wsjreg/do/loadStudentReg?call=R_ST_EDU&KEY_EXT_CODE=75HTB

The London Financial Times: http://news.ft.com/Education/Portal/welcome_students.html

The Economist: <https://www.economistacademic.com/index.cfm?action=sso>

Other textbooks on macroeconomics you may wish to consult are given below:

Barro, Robert J. Macroeconomics, Wiley.

DeLong, J. Bradford, Macroeconomics. McGraw-Hill Irwin.

Gordon, Robert J., Macroeconomics, Addison Wesley.

Interested students may want to read the following Fed publication (available on the web) on open-market operations:

<http://www.ny.frb.org/aboutthefed/fedpoint/fed32.html>

The Federal Reserve Bank of New York also provides brief notes (termed Fedpoints) on a number of the topics we will cover in class – these are available at the following address: <http://www.ny.frb.org/aboutthefed/fedpoints.html>

PUBPOL556 day-to-day schedule

Class	Date	Topic	Reading	Issued	Collected
1	1/8	Introduction	Ch.1-2*		
2	1/10	The Macroeconomy in the Long Run I	Ch.3*	Prob 1	
3	1/17	The Macroeconomy in the Long Run II	Ch.6*		
4	1/22	Money, Inflation and Interest Rates	Ch.4*		
5	1/24	Central Banks and Monetary Policy	Ch.18*	Prob 2	
6	1/29	The Open Economy	Ch.5*		
7	1/31	Short Run Economic Fluctuations	Ch.9		
8	2/5	The Role for Government I	Ch.10.1*		
9	2/7	The Role for Government II	Ch.10.2-3	Prob 3	
10	2/12	Policy Goals in the Short Run	Ch.11*		
11	2/14	Inflation and Unemployment I	Ch.13.1*	Midterm Qs	
12	2/19	Inflation and Unemployment II	Ch.13.2,14*		
13	2/21	Midterm Exam			
14	3/5	The Open Economy in the Short Run I	Ch.12.1-2		
15	3/7	The Open Economy in the Short Run II	Ch.12.3-4*		
16	3/12	European Union	Ch.12.5*	Prob 4	
17	3/14	Economic Growth and Convergence I	Ch.7*		Group project info
18	3/19	Economic Growth and Convergence II	Ch.8*		
19	3/21	Deficits and Debt	Ch.15*	Prob 5	
20	3/26	Stabilizations and Reform I	Whitt*		
21	3/28	Stabilization and Reform II	Rodrik*		
22	4/2	Stabilization and Reform III	Easterly*		
23	4/4	What We Know/What We Don't	Epilogue*		
24	4/9	Project Presentations 1		Final Qs	Project
25	4/11	Project Presentations 2			
26	4/16	Final Exam			

All chapters listed under “readings” are in the Mankiw textbook. An asterisk * denotes that additional readings for this topic are listed on the next page.

Additional Readings available off the web to supplement the required readings listed on page 3:

Class 1: Introduction

“Economic Indicators for Consumers: Key Measures of Consumer Well-Being to Watch for in the New Media,” Federal Reserve Bank of Richmond.

http://www.richmondfed.org/educational_info/consumer_information/econind/index.cfm

Abraham, K., “What We Don’t Know Could Hurt Us: Some Reflections on the Measurement of Economic Activity,” Journal of Economic Perspectives, volume 19, No. 3, Summer 2005, 3-18.

“Measuring Economies: Garbage In, Garbage Out”, The Economist, May 27th 2004

“Measuring Inflation: Costs Of Living,” The Economist, June 3rd 2004

“The Informal Economy: In the Shadows”, The Economist, June 17th 2004

“GDP versus GNP: Measure for Measure”, The Economist, Oct 14th 2004

“Measuring Economies: Grossly Distorted Picture”, The Economist, February 9, 2006

Class 2: The Macroeconomy in the Long Run I

“National Productivity Statistics,” Economic Quarterly, Federal Reserve Bank of Richmond, iv. 84, Winter 1998, pp. 45-64.

http://www.richmondfed.org/publications/economic_research/economic_quarterly/pdfs/winter1998/webb.pdf

“GDP Growth: Europe versus America”, The Economist, Jun 17th 2004

“A Productivity Primer,” The Economist, Nov 4th 2004

“Slow Road Ahead,” The Economist, Oct 26, 2006

Class 3: The Macroeconomy in the Long Run II

“Why Wages Do Not Fall in Recessions,” The Economist, February 26, 2000

“Debating the Minimum Wage,” The Economist, February 1, 2001

“The Reserve Army (Of Unemployment),” The Economist, Feb 12th 2004

“Why France’s Unemployment is Proving so Intractable,” The Economist, April 21, 2005

“Are 5.1m Americans Missing from the Unemployment Figures?”, The Economist, July 28, 2005.

Tille, C. and Yi, K.M., “Curbing Unemployment in Europe: Are There Lessons From Ireland and the Netherlands?” Current Issues in Economics and Finance, May 2001, v.7 no.5, pp 1-6.

http://www.newyorkfed.org/research/current_issues/ci7-5.pdf

Saint-Paul, G. “Why are European Countries Diverging in their Unemployment Experience?”, Journal of Economics Perspectives, V.18, 4, Fall 2004, 49-68.

Class 4: Money, Inflation and Interest Rates

“Heading For a Fall, By Fiat? Paper Money,” The Economist, Feb 26th 2004

“Unnatural Causes of Debt”, The Economist, September 14, 2006

Class 5: Central Banks and Monetary Policy

Romer, Christina and David Romer, “Choosing the Federal Reserve Chair: Lessons from History”, Journal of Economic Perspectives, 18, 1, 129-162, Winter 2004.

“Monopoly Power over Money,” The Economist, November 27, 1999

“E-Money Revisited”, The Economist, July 22, 2000

Class 5: Central Banks and Monetary Policy (cont.)

U.S. Monetary Policy: Part 1: How Is The Fed Structured And What Are Its Policy Tools? January 16, 2004 FRBSF [Economic Letter](#)

U.S. Monetary Policy: Part 2: What Are The Goals Of U.S. Monetary Policy? January 23, 2004 FRBSF [Economic Letter](#)

U.S. Monetary Policy: Part 3: How Does Monetary Policy Affect The U.S. Economy? January 30, 2004 FRBSF [Economic Letter](#)

U.S. Monetary Policy: Part 4: How Does The Fed Decide The Appropriate Setting For The Policy Instrument? February 6, 2004 FRBSF [Economic Letter](#)

Class 6: The Open Economy

Higgins, M. and Klitgaard, T., "Viewing the Current Account Deficit as a Capital Inflow," [Current Issues in Economics and Finance](#), Dec 1998, v.4 no.13, pp 1-6.
http://www.newyorkfed.org/research/current_issues/ci4-13.pdf

Mann, C., "Perspectives on the U.S. Current Account Deficit and Sustainability", [Journal of Economic Perspectives](#), 16, 3, Summer 2002, 131-152.

"PPP: Food for Thought," [The Economist](#), May 27, 2004

"Wise Men at Ease and the US Current Account Deficit," [The Economist](#), April 28, 2005.

"Traffic Lights on the Blink? Global Economic Adjustment," [The Economist](#), August 18, 2005.

"McCurrencies," [The Economist](#), May 25, 2006.

Class 7: Short Run Economic Fluctuations

Class 8: The Role for Government I

"A Stimulating Debate: How Should Fiscal Policy Be Used to Support a Slumping Economy?" [The Economist](#), October 25, 2001.

"US Imbalances: A Series of Fortunate Events," [The Economist](#), November 25, 2004

Class 9: The Role for Government II

Class 10: Policy Goals in the Short Run

DeLong, J. Bradford, "Keynesianism, Pennsylvania Avenue Style: Some Economic Consequences of the Employment Act of 1946," [Journal of Economic Perspectives](#), vol.10, no.3, Summer 1996, pp. 41-53.

"Ideas and the World: Skidelsky on Keynes," [The Economist](#), November 25, 2000

"Of Shocks and Horrors," [The Economist](#), September 26, 2002

"Defining the R-Word," [The Economist](#), September 26, 2002

"Weapons of Mass Distraction," [The Economist](#), September 26, 2002

"Japan's Lost Decade," [The Economist](#), September 26, 2002

"New Policies for a New World", [The Economist](#), Sep 30th 2004

"After Hurricane Katrina", [The Economist](#), September 1, 2005

Class 11: Inflation and Unemployment I

Espinosa-Vega, Marco A., and Russell, Steven, "History and Theory of the NAIRU: A Critical Review," Economic Review, Federal Reserve Bank of Atlanta, Second Quarter 1997, pp. 4-25.
http://www.frbatlanta.org/publica/eco-rev/rev_abs/97er/q2/espinoasa.pdf

"Up the Nairu Without a Paddle," The Economist, March 6, 1997
"A New Economy for the New World", The Economist, September 25, 1999
"Seeking the Right Medicine: Japanese Deflation," The Economist, June 19th 2003
"Neutral Interest Rates: Aiming For a Happy Medium," The Economist, Dec 16th 2004
"The Phillips Curve: Fashionable Again," The Economist, Sep 28, 2006
"Sticky Prices," The Economist, Nov 9, 2006

Ball, L. and Mankiw, N.G., "The NAIRU in Theory and Practice," Journal of Economic Perspectives, 16, 4, Fall 2002, pp. 115-136.

Svensson, L. "Escaping from the Liquidity Trap and Deflation: The Foolproof Way and Others," Journal of Economic Perspectives, V.17, 4, Fall 2003, 145-166.

Class 12: Inflation and Unemployment II

Chang, Roberto, "Policy Credibility and the Design of Central Banks," Economic Review, Federal Reserve Bank of Atlanta, First Quarter 1998, pp.4-15.
http://www.frbatlanta.org/publica/eco-rev/rev_abs/98er/q1/chang.pdf

"Policymaking on the FOMC: Transparency and Continuity", FRBSF Economic Letter, September 2005.
<http://www.frbsf.org/publications/economics/letter/2005/el2005-22.pdf>

"On Target?" The Economist, August 30, 2001
"Coming in from the Cold", The Economist, September 25, 1999
"Central Banks: It's Not Always Good To Talk," The Economist, July 22nd 2004
"The Oracle Becomes Less Oracular," The Economist, Nov 30, 2006

Appendix to chapter 14 (in Mankiw text).

Class 14: The Open Economy in the Short Run I

Class 15: The Open Economy in the Short Run II

"Fix or Float? (Global Finance Survey, part 6)," The Economist, January 30, 1999
"Fix or Float?," The Economist, September 11, 2003

Cavallo, M., "To Float or Not To Float? Exchange Rate Regimes and Shocks" FRBSF Economic Letter, January 7, 2005. <http://www.frbsf.org/publications/economics/letter/2005/el2005-01.pdf>

Class 16: European Union

Dominguez, Kathryn, "[The ECB, the Euro and Global Financial Markets](#)," Journal of Economic Perspectives, 20, 4, Fall 2006, 67-88.

"Germany's Euro Test," The Economist, June 12th 2003
"Europe: Growing Apart," The Economist, Sep 30th 2004
"European Union Enlargement," The Economist, April 28, 2005
"The Hare and the Tortoise," The Economist, September 24, 2005

Class 17: Economic Growth and Convergence I

- “Rainy-Day Blues”, The Economist, December 2, 2000
- “A Saving Grace: Japanese Saving,” The Economist, July 3rd 2003
- “The Shift Away from Thrift,” The Economist, April 7, 2005
- “Pensions by Default,” The Economist, August 25, 2005
- “The Great Thrift Shift,” The Economist, September 24, 2005
- “Anatomy of Thrift,” The Economist, September 24, 2005
- “The Viagra Economy,” The Economist, September 24, 2005
- “The Frugal Giant,” The Economist, September 24, 2005
- “Reversal of Fortune,” The Economist, September 24, 2005
- “Rebalancing Act,” The Economist, September 24, 2005

Class 18: Economic Growth and Convergence II

Solow, Robert M., "Perspectives on Growth Theory," Journal of Economic Perspectives, Winter 1994, vol. 8, no. 1, pp. 45-54.

Glaeser, E., La Porta, R., Lopez-de-Silanes, F., Shleifer, A., “Do Institutions Cause Growth?” Harvard Working Paper, http://post.economics.harvard.edu/faculty/glaeser/papers/Institutions_Growth.pdf

- “Simulating the Century,” The Economist, January 6, 2000
- “Does Population Matter?” The Economist, December 5, 2002
- “Lion Cubs on A Wire: Growth in Africa,” The Economist, Aug 14th 2003
- “Education and Growth: Counting Heads,” The Economist, Aug 26th 2004

Class 19: Deficits and Debt

Cavallo, M., “Understanding the Twin Deficits: New Approaches, New Results.” FRBSF Economic Letter, 2005-16, July 22, 2005. <http://www.frbsf.org/publications/economics/letter/2005/el2005-16.pdf>

- “Into the Valley Of Debt: Developing Countries,” The Economist, Sep 25th 2003
- “Government Debt: In The Long Run We Are All Broke,” The Economist, Nov 20th 2003
- “Japan’s Debt: Grey Hair, Red Ink, but Blue Skies?,” The Economist, June 24th 2004
- “Europe: Virtue Unrewarded,” The Economist, Nov 18, 2004
- “Forever Free,” The Economist, September 24, 2005
- “The Price of Privilege,” The Economist, September 24, 2005

Class 20: Stabilizations and Reform I

Whitt, Joseph A., Jr., “The Mexican Peso Crisis,” Economic Review, Federal Reserve Bank of Atlanta, Jan/Feb 1996, pp. 1-20. http://www.frbatlanta.org/publica/eco-rev/rev_abs/96er/j_whi811.pdf

- “Sick Patients, Warring Doctors,” The Economist, September 18, 1999
- “Roots of Development,” The Economist, October 3, 2002
- “Peso Crisis Ten Years On,” The Economist, December 29, 2004

Class 21: Stabilization and Reform II

Rodrik, Dani, “Understanding Economic Policy Reform,” Journal of Economic Literature, v. 34 no. 1, March 1996, pp. 9-41.

- “Crises and Growth: No Pain, No Gain,” The Economist, December 11, 2003

Class 21: Stabilization and Reform II (cont.)

Fraga, Arminio, "Latin America Since the 1990s: Rising from the Sickbed?", Journal of Economic Perspectives, V.18, 2, 89-106, Spring 2004.

"Emerging Economies: Climbing Back", The Economist, January 19, 2006

Class 22: Stabilization and Reform III

Arslanalp, Serkan and Peter Blair Henry, "Debt Relief," Journal of Economic Perspectives, V.20, 1, Winter 2006, 207-220.

Easterly, William, "Growth Implosions and Debt Explosions: Do Growth Slowdowns Cause Public Debt Crises?", Contributions to Macroeconomics, Vol. 1, 2001.

Easterly, William, "Can Foreign Aid Buy Growth?", Journal of Economic Perspectives, V.17, 3, Summer 2003, 23-48.

"Development Piecemeal," The Economist, Aug 5th 2004

"To Give or Forgive," The Economist, June 16, 2005

Class 23: What We Know/What We Don't

Chari, V.V., and Patrick J. Kehoe, "Modern Macroeconomics in Practice: How Theory is Shaping Policy," Journal of Economic Perspectives, V.20, 4, 2-28.

Mankiw, N. Gregory, "The Macroeconomist as Scientist and Engineer," Journal of Economic Perspectives, V.20, 4, 29-46.