

Econ 311-003

Intermediate Macroeconomics

Fall 2016

Thur: 7:20-10:00 PM

Robinson B224

Instructor: James Caton

Office Hours: Thur 5:00-6:00 PM Mason Hall, Econ Dept.

Email: jcaton@gmu.edu

Website: <http://economics.gmu.edu/people/jcaton>

Required Texts:

Rustici, T., Caton, J., Shamoun, D., Shamoun, T. (2015) *Macroeconomics: Monetary Foundations of the Macroeconomy*. San Diego, CA: Cognella.

Rustici, T., Caton, J., Shamoun, D., Shamoun, T. (2015) *Macroeconomics: Past and Present*. San Diego, CA: Cognella.

Course Prerequisites:

Principles of Economics (Econ 103 and 104) or equivalent.

Grading:

Classroom Participation:	5%
Respond to Reading Question:	10%
Discussion:	15%
Critical Thinking Write-ups	20%
Midterm:	20%
Final:	30%
Extra Credit:	10%

Be aware that there will be no special extra credit offered to help students to raise their grade. Only extra credit offered in this syllabus will be available during the semester.

Grades Scored Between Grade

97% and Higher

A+

94% and Less Than 97%	A
90% and Less Than 94%	A-
87% and Less Than 90%	B+
84% and Less Than 87%	B
80% and Less Than 84%	B-
77% and Less Than 80%	C+
74% and Less Than 77%	C
70% and Less Than 74%	C-
60% and Less Than 70%	D
Less Than 60%	F

Critical Thinking Write-ups:

Students must respond to the critical thinking question for the week. Responses should be **one (1)** page typed (double-spaced). Response should be thoughtful and reflect understanding of the course material. Critical thinking write-up is not due for the first day of class.

Respond to Reading Questions:

Students must sign up to respond to questions for **one (1)** reading. Students must sign up for this by the second meeting of class. Students may choose to sign up for an additional reading to earn up to 5% extra credit.

Discussion:

There are **three (3)** discussions spaced throughout the semester. For discussion, you are required to write an interesting question related to the material covered since the previous discussion (or beginning of the semester in the case of the first discussion). Answer that question with a thoughtful **one (1) response (double spaced)**. Discussion grade is based half on question responses, half on participation. Questions are due at the **beginning of class** on the day of discussion.

Discussion Days:

Week 3 – Thursday 9/15: Action in a World of Scarcity

Week 11 – Thursday 11/10: Money, Banking, and the State

Week 15 – Thursday 12/8: Institutions and Market Efficiency

Exams:

Students will complete a midterm and a final exam. These exams must be taken at the scheduled time. Exceptions may be made in the case of an emergency – for example, a medical emergency or death in the family – and will be dealt with on a case by case basis.

Final Exam Date: 12/15 at 7:30-10:15 PM

Extra Credit:

Any time during the semester, students can bring in a 1 to 2 page write-up that relates a current event to the material discussed in class. This should include either an attached article or link to short video of 3 minutes or less that conveys the topic of interest. The student will be responsible for explaining the material from his or her write-up to the class in approximately two minutes. One write-up may be turned in for a maximum of 5% of the overall course grade. The student must notify the professor at least 24 hours prior to the date that he or she expects to present. Write-ups must be double-spaced in 12 point Times New Roman font.

Course Objective and Overview:

This course is designed to guide students toward a deep, fundamental understanding of macroeconomics. Students will learn to employ tools that will help them to both understand monetary and macroeconomic issues in the news and history, as well as apply them to understand the likely outcomes of a variety of monetary and macroeconomic policies. During this course, students will be exposed to conflicting perspectives. It is the student's job to evaluate and work through these conflicts both outside and inside of the classroom. This course is intended to aid each student in growing his or her knowledge and familiarity with the language and logic of economics. Consequently, discussion must relate to the underlying material outlined herein.

Attendance

It is expected that each student will attend class regularly and participate in discussions. There will be no regular attendance as a substantial portion of each student's grade will be dependent upon their regular contribution to discourse in the classroom.

Communication

Whenever necessary, I will email the class with announcements via blackboard. This requires that each student regularly check his or her Mason email account. It is the student's responsibility to activate the Mason email account and employ it in communicating with their department and university administration whenever necessary.

Honor Code:

Students are expected to understand and comply with George Mason University's Honor Code. Students may neither give nor receive help from other students or from sources not specifically condoned by the instructor during the exam. Students are obligated to report any violations observed.

Students with Disabilities:

If you are a student with a disability and you need academic accommodations, please see me and contact the [Office of Disability Services](http://ods.gmu.edu) at 703-993-2474 or <http://ods.gmu.edu>. All academic accommodations must be arranged through that office.

Lecture Structure

No Discussion

Reading (10-15 minutes)

- Clarifying questions (answered by students who signed up for the reading)

Lecture (150 minutes)

- Model, Technical Details, Vocabulary (Two 70 minute sections)
- Application in media, in the news (10 minutes)*

Break (10 Minutes)

Final Thoughts / Looking Ahead (5 minutes)

Discussion

Reading (10-15 minutes)

- Clarifying questions (answered by students who signed up for the reading)

Lecture (60 minutes)

- Introduce topic generally (10-15 minutes)
- Model, Technical Details, Vocabulary (50 minutes)

Break (10 minutes)

Discussion (90 minutes)

Final Thoughts / Looking Ahead (5 minutes)

*Extra Credit

Week 1 – Complexity and Auto-poetic Order

Thursday 9/1:

Human Perception, Action, and Interaction

Readings and Videos Due:

I Pencil

I Pencil (video): <https://www.youtube.com/watch?v=IYO3tOqDISE>

Be Suspicious of Stories: http://www.ted.com/talks/tyler_cowen_be_suspicious_of_stories

“How the Price System Works” by Henry Hazlitt

“‘I Pencil’, Complexity, and Economic Coordination”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/01/i-pencil-complexity-and-economic.html>

Human Action

“A First Analysis of the Category of Human Action” by Ludwig von Mises

“Economic Action: Subjectivity, Value, and the Price System”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/01/economic-action-subjectivity-value-and.html>

Critical Thinking:

According to Ludwig von Mises, what is the fundamental axiom of human action? Is Ludwig von Mises claiming that humans maximize utility? Where does choice fit into Mises exposition?

Week 2 – The Objects of Economic Analysis (I)

Thursday 9/8:

Economic Goods and Scarcity

Readings and Videos Due:

“The General Theory of the Good” in *Principles of Economics*, by Carl Menger

http://mises.org/sites/default/files/Principles%20of%20Economics_5.pdf

Scarcity in Economic – Definition: <https://www.youtube.com/watch?v=-A916v81IYQ>

“Formulating a Framework for Economic Analysis (with Agent-based Modeling in Mind)”:

<http://moneymarketsandmisperceptions.blogspot.com/search?updated-max=2015-02-08T18:08:00-08:00&max-results=7&start=7&by-date=false>

Prices and Information

“The Formation and Function of Prices” by Hans Sennholz

“The Use of Knowledge in Society” by F. A. Hayek

What Do Prices “Know” That You Don’t?: <https://www.youtube.com/watch?v=WPY-QKXofQs>

“Prices, Information, and Coordination of Disparate Agents”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/01/prices-information-and-coordination-of.html>

Critical Thinking:

What is the significance of price in economic coordination? Adam Smith coined the term, *Invisible Hand* (Google it). What role might prices play in promoting patterns of behavior that cohere to Smith’s observation?

Week 3 – The Objects of Economic Analysis (II)

Thursday 9/15: The Entrepreneur and the Economy

Discussion

Readings and Videos Due:

“The Entrepreneur” by Gustav Cassel

“The Instability of Capitalism” by Joseph Schumpeter

“The Role of the Entrepreneur: Coordination and Innovation”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-role-of-entrepreneur-coordination.html>

The Market Discovery Process

Readings Due:

“Entrepreneurial Discovery and the Competitive Market Process” by Israel Kirzner

<http://econfaculty.gmu.edu/pboettke/summer/summer%20docs/kirzner1997.pdf>

(Sections II and III, 63-74)

“Competition as Discovery Process” by F. A. Hayek

https://mises.org/sites/default/files/qjae5_3_3.pdf

“Uncertainty, Evolution, and Economic Theory” by Armen Alchian:

<http://institutoamagi.org/download/Alchain-Armen-Uncertainty-Evolution-and-Economic-Theory.pdf>

“Types of Entrepreneurial Action and Overcoming Difficulty: Trade Facilitation, Innovation, and Political Entrepreneurship”: <http://moneymarketsandmisperceptions.blogspot.com/2015/02/types-of-entrepreneurial-action-and.html>

Additional Reading:

“Hayek, Auto-poetic Social Order, and Critical Realism” by James Caton

http://moneymarketsandmisperceptions.blogspot.com/2014_10_01_archive.html

Critical Thinking:

Define entrepreneurship in light of the readings. What are some of the roles that the entrepreneur plays in the economic system? Is there a primary role that most broadly describes entrepreneurial action?

Week 4 – Money

Thursday 9/22:

The Origins and Evolution of Money

Readings and Videos Due:

“The Island of Stone Money” by Milton Friedman

“The Theory of Money” by Carl Menger*

“An Evolutionary Theory of the State Monopoly over Money” by David Glasner*

Why Not Print More Money: <https://www.youtube.com/watch?v=ZkyBnaYCUhw>

“The Emergence and Functions of Money”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-emergence-and-functions-of-money.html>

The Value of Money

Readings Due:

“On the Minting of Money” by Nicolas Copernicus

“Of Money” by David Hume

“The Emergence of the State Monopoly over Money”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-emergence-of-state-monopoly-over.html>

Critical Thinking:

Describe the basic process of monetary evolution outlined by Menger. Do you think this story is realistic? How did the state come to involve itself in the monetary system? What are some motivations for state involvement?

Week 5: The Quantity Theory of Money

Thursday 9/29:

The Quantity Theory

Readings Due:

“Of the Value of Money as Dependent Upon Demand and Supply” by John Stuart Mill

“The Quantity Theory: Its Versions and Variables” by Thomas Rustici

“The Equation of Exchange, Its Versions, and Its Elements”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/the-equation-of-exchange-its-versions.html>

Inflations and Hyperinflations

Readings and Videos Due:

“Fiat Money in France” by Andrew White

“The Roman Hyperinflation” by Thomas Rustici

“Cross Country Data on Inflation and Monetary Growth” by Robert Barro

The Costs of Inflation: <https://www.youtube.com/watch?v=9zFQ0KhKkpw>

“Intuitive Sums: Making the Equation of Exchange Easy to Interpret”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/intuitive-sums-making-equation-of.html>

Critical Thinking:

How does the Equation of Exchange (~Quantity Theory of Money) differ from the perspective offered by Menger? Are these opposed to one another? How might they be reconciled?

Week 6: Aggregate Demand and Supply

Thursday 10/6: Aggregate Demand and Aggregate Supply

Readings and Videos Due:

“Appendix 3: Price Level, National Income Accounting, and Aggregate Supply and Aggregate Demand”

“The Determinates of the Objective Exchange-Value, or Purchasing Power, of Money” by Ludwig Von Mises

Aggregate Demand: https://www.youtube.com/watch?v=oLhohwfwf_U

Long-Run Aggregate Supply: <https://www.youtube.com/watch?v=8W0iZk8Yxhs>

“Dynamics of Aggregate Demand”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/dynamics-of-aggregate-demand-and-prices.html>

Short-run Aggregate Supply

Readings and Videos Due:

“The Money Illusion” by Irving Fisher

“Classical Economics Reconsidered” by Thomas Sowell

Business Cycles Explained: Sticky Wages and Prices: <https://www.youtube.com/watch?v=-5zRfUb7D2U>

Short-run Aggregate Supply: <https://www.youtube.com/watch?v=3nbalsyibKU>

“Upward-Sloping Short-run Aggregate Supply”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/02/upward-sloping-short-run-aggregate.html>

Say’s Identity

“Of the Demand or Market for Products” by Jean Baptiste Say

“Say’s Principle: What it Means and Doesn’t” by Axel Leijonhufvud and Robert Clower

Mount Olive College Economist Paul Cwik Explains the Real Meaning of Say’s Law:

<https://www.youtube.com/watch?v=q68cbPEQY5I>

Say’s Principle and Macroeconomic Analysis:

<http://moneymarketsandmisperceptions.blogspot.com/2015/03/says-principle-and-macroeconomic.html>

Critical Thinking:

How are the aggregate demand curve and the equation of exchange related? Do you think this relationship has any effect on the soundness of analysis? In answering, discuss which variables from the equation represent aggregate supply and which represent aggregate demand. Describe Say’s Principle. What role do expectations play in Say’s Principle (Leijonhufvud and Clower)? Relate the aggregate demand curve and equation of exchange to Say’s Principle.

Week 7: Banking

Thursday 10/13:

Midterm

(After Midterm)

Interest Rates

Readings and Videos Due:

“Interest” by Ludwig von Mises

Interest Rates in Austrian Theory: <https://www.youtube.com/watch?v=17MJzNUj-gY>

“The Nature and Role of the Interest Rate”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/03/the-nature-and-role-of-interest-rates.html>

Critical Thinking:

How does the interest rate coordinate savings and investment? Must savings equal investment? Why might these not match *ex ante*?

Week 8 Banking

Thursday 10/20:

Banking

Readings and Videos Due:

“The Theory of Banking” by Ralph Hawtrey

“Paper Money and the Quantity Theory” by Ralph Hawtrey

Money and Banking 101: <https://www.youtube.com/watch?v=d5opknIB9XE>

“Money and Credit: Origins, Instruments, and Dynamics”:

<http://moneymarketsandmisperceptions.blogspot.com/>

Monetary Policy

Readings Due:

“Appendix 2: Central Banking and Money Creation”

“Monetary Policy” by James Tobin:

<http://www.econlib.org/library/Enc/MonetaryPolicy.html>

“Monopoly Money and Inflation” by Geoffrey Brennan and James Buchanan

Money Supply – M0, M1, and M2: <https://www.youtube.com/watch?v=LPh72gx6GE>

“Central Banking: The Basics”: <http://moneymarketsandmisperceptions.blogspot.com/2015/03/central-banking-basics.html>

Critical Thinking:

According to Ralph Hawtrey, how do economic agents decide whether to save their wealth in the form of outside money (i.e., gold), inside money (savings and checkings accounts), stocks and bonds, assets, etc...? How do these choice affect the overall money supply (M_T), and therefore, the money multiplier? What part of the money stock does the Fed directly control? Which part does it not directly control?

Week 9: Banking and Trade Fluctuations

Thursday 10/27:

Alternative Monetary Arrangements: Theory and History

Readings and Videos Due:

“The Central Bank Role of Clearing Houses” by Richard Timberlake

“The Evolution of a Freebanking System” by Lawrence H. White and George Selgin

What is Free Banking and Why Should I Care?: <https://www.youtube.com/watch?v=IVK-kgSQMPs>

“The Emergence of the Clearinghouse”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/04/the-emergence-of-clearinghouse.html>

Classical Business Cycle Theories

Readings and Videos Due:

“Business Cycle Theory” by Thomas Cate, et al.

“The Trade Cycle” by Ralph G. Hawtrey

“The Fundamental Causes of Business Fluctuations” by F. A. Hayek

Business Cycles Explained: Austrian Theory: https://www.youtube.com/watch?v=Log_dcRj7HI

“How The Credit Cycle Forms the Basis of the Business Cycle”:

<http://moneymarketsandmisperceptions.blogspot.com/2015/04/how-credit-cycle-forms-basis-of.html>

Critical Thinking:

According to Ralph Hawtrey, what does a net increase in credit extended imply with respect to expectation concerning the value of nominal output / income? Relate this to changes in the money stock

(define which portion of the money stock is changing). Use Say's principle to describe how changes in the credit stock relate to changes in nominal income?

Week 10: Business Cycles: Theory and History

Thursday 11/3:

Modern Business Cycle Theories

Readings and Videos Due:

"Business Cycle Theory" by David W. Findlay

"A Cash Balance Interpretation of Depression" by Leland Yeager

Business Cycles Explained: Monetarist Theory: <https://www.youtube.com/watch?v=SgweT-7i1hU>

World War I and the Roaring Twenties

Readings and Videos Due:

"The Yellow Brick Road to Ruin" by James Caton

"The Post World War I Monetary and Trade Setting" by Thomas Rustici

History of Economic Booms and Busts: <https://www.youtube.com/watch?v=83sX8Ent4vo>

"Mises Unwitting Affirmation of the Hawtrey-Cassel Explanation of the Great Depression":
<http://uneasymoney.com/2015/07/03/misess-unwitting-affirmation-of-the-hawtrey-cassel-explanation-of-the-great-depression/>

Critical Thinking:

Explain how central bank management of the gold standard sometimes led to economic distortions. Refer to Say's principle in the explanation. How might central bank management also distort relative prices between and within nations? Use this understanding to explain economic fluctuations that occurred during and after World War I

Week 11: The Great Depression

Thursday 11/10:

Discussion

The Great Depression

Readings and Videos Due:

“Herbert Hoover: Father of the New Deal” by Steven Horwitz

“Rethinking the Great Depression” by Gene Smiley

“Fear the Boom and Bust”: <https://www.youtube.com/watch?v=d0nERTFo-Sk>

“Keynes vs. Hawtrey (Final Round): Gold Demand and Gold Prices”:
<http://moneymarketsandmisperceptions.blogspot.com/2014/02/keynes-vs-hawtrey-final-round-gold.html>

Critical Thinking:

Was the Great Depression an inevitable consequence of economic growth during the twenties? Describe at least two policies that helped precipitated the Great Depression. How did wage and price controls prolong the Great Depression? Did they have the effects that politicians claimed they would have?

Week 12: The New Deal, World War II, and Keynesian Economics

Thursday 11/17

The New Deal, World War II

Readings and Videos Due:

“New Deal Policies and the Persistence of the Great Depression” by Harold L. Cole and Lee E. Ohanian

“Wartime Prosperity: A Reassessment of the U.S. Economy in the 1940s” by Robert Higgs

“Fight of the Century: Keynes vs Hayek, Round 2”: <https://www.youtube.com/watch?v=GTQnarzmTOc>

Keynes

“The General Theory of Employment, Interest and Money” by John Maynard Keynes

“Keynes’ Not-So-General Theory” by James Caton

Business Cycles Explained: Keynesian Theory: https://www.youtube.com/watch?v=g_647R_vUVc

Week 13: No Class - Thanksgiving

Week 14 Modern Macroeconomics

Tuesday 12/1: Expectations: Adaptive, Rational, and Ecological

Readings Due:

“The Role of Monetary Policy” by Milton Friedman

“Rational Expectations” by Thomas Sargent

“Expectations and Rationality in Economics”: <https://www.youtube.com/watch?v=PKstzsRFY4Y>

Efficient Markets

“A Random Walk Down Wall Street” by Burton Malkiel

“Eugene F. Fama, Efficient Markets, and the Nobel Prize” by John H. Cochrane

Week 15 Institutions and Growth

Tuesday 12/8: Why Some Nations are Rich and Others are Poor

Discussion

Readings Due:

“So Close and Yet So Different: The Economics of the Rio Grande” by Daron Acemoglu and James A. Robinson

“The Unacknowledged Success of Neoliberalism” by Scott Sumner

Economics and Epistemic Humility

“The Pretense of Knowledge” by F. A. Hayek