

Intermediate Macroeconomics

INSTRUCTOR: Bryan P. Cutsinger

ECON 311-002

Spring 2018

OFFICE LOCATION: James Buchanan Hall D121

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TR: 9:00-10:15AM

OFFICE HOURS: By Appointment

“There are two steps to learning macroeconomics. First, to see it as it is today. Second, to understand how it got there: to understand the right and the wrong turns, the hypotheses that proved false, the insights that proved true, and the interaction of events and ideas. Only then, does one truly understand macroeconomics.” – Olivier Blanchard

1. COURSE DESCRIPTION

Broadly speaking, macroeconomics is the study of two phenomena: long-run economic growth and short-run economic fluctuations, also known as business cycles. Given the scope and importance of these topics, it is impossible to adequately explore either of them in their entirety over the course of a single semester. Rather than attempt the impossible, the focus of this class will be the study of business cycles. This focus should not suggest, however, that the study of economic growth isn’t important. As Nobel-winning macroeconomist Robert Lucas (1988) once noted, “Once one starts to think about [economic growth], it is hard to think about anything else.”¹

This year marks the tenth anniversary of the most severe economic contraction since the Great Depression. The Great Recession, and events like it, can have lasting effects not only on the economy, but on social and political institutions as well. Moreover, the governments in most of the world’s developed countries have been tasked with ensuring macroeconomic stability. In the United States, for example, the Federal Reserve, along with numerous other regulatory agencies, have immense authority over the operation of the economy. For these reasons, it is imperative that you understand the theoretical framework that macroeconomists and policymakers use to analyze business cycles and mitigate their effects.

In my own experience as a student and as a teacher, mastering macroeconomics requires an understanding of both the theoretical paradigm that is currently dominant, and of past approaches that, for whatever reason, are no longer part of the mainstream. It is a mistake to believe that the science of economics progresses along a linear path of uninterrupted progress.² Accordingly, examining macroeconomic theories that were once considered part of the mainstream is valuable, not only for historical reasons, but also because these ideas can aid in our knowledge of contemporary

¹ If economic growth is a topic that interests you, I would encourage you to take one of the courses that the Economics Department offers on economic development and economies in transition. See, for example, ECON 360, 361, 362, and 380. You can also review the material on economic growth in the books that I’ve assigned for this course. See chapters 8 and 9 in Mankiw (2015), chapter 23 in Sowell, (2014), and chapter 11 in Snowdon & Vane (2005). I am also happy to suggest additional resources upon request.

² For a discussion of this point, see Boettke, Coyne, & Leeson (2014). For a discussion about the role of paradigm shifts in scientific progress, see Kuhn (2012).

macroeconomics. Therefore, in this course we will explore both current and past theories of the business cycle.

During the first half of this course, our primary task will be to master the basic concepts and tools that macroeconomists use to analyze the operation of the economy. We will then use this analytical framework to evaluate different business cycle theories, including Keynesian, Monetarist, Real, and Austrian. Upon successfully completing this course, you will (1) possess an understanding of the data and analytical framework that macroeconomists use to study the production and allocation of output in both open and closed economies; (2) possess an understanding of the role that the monetary system plays in the economy; (3) be able to use the aggregate demand and supply model to analyze how the economy adjusts in the short- and long-run under alternative theories of the business cycle; (4) be able to explain the alternative perspectives on stabilization policy and government deficits and debt that emerge from these different theories.

This syllabus represents a contract between myself and the students. I will do my best to uphold the guidelines and schedule outlined below, and I expect you to do the same. If necessary, however, I reserve the right to alter the syllabus.

2. PREREQUISITES AND EXPECTATIONS

I expect that you have successfully completed the following prerequisites for this course: ECON 103, ECON 104, and MATH 108 or MATH 113. I assume that you have a basic understanding of macro and microeconomic principles, basic algebra, and elementary calculus. If you need to review these topics, I recommend that you use Marginal Revolution University and Khan Academy.

I also expect that you will treat your fellow classmates with respect, even if you disagree with them; reasonable minds can differ on any number of perspectives, opinions, and conclusions. Constructive disagreement sharpens our thinking and deepens our understanding; therefore, it is not only encouraged, but expected. All viewpoints are welcome in my class; however, no ideas are immune from scrutiny and debate.³

Regular attendance is essential to successfully completing this course. As such, I expect you to attend all of the lectures. If you need to miss a class, it is your responsibility to obtain all lecture notes and assignments from one of your classmates.

3. READING MATERIALS

There are two required books for this course:

- Mankiw, N. G. (2015). *Macroeconomics* (9th edition). New York: Worth Publishers.

³ Additionally, please refrain from distracting behavior, e.g. side conversations and using electronic devices for unrelated activities as these are disrespectful to both me and your classmates. While I do not forbid the use of computers during my lectures, you should be aware that doing so can negatively affect your ability to learn (Dynarski, 2017). Accordingly, I encourage you to take your lecture notes by hand.

- Sowell, T. (2014). *Basic Economics* (5 edition). New York, NY: Basic Books.

The first book is, to date, the best-selling undergraduate macroeconomics textbook – for good reason in my opinion. While not perfect, Mankiw does an admirable job of explaining the key macroeconomic concepts and theories without overwhelming the reader with mathematics. Sowell’s book provides an extensive overview of the ideas and concepts that form the foundation of all economic analysis, mastery of which will aid you in becoming a better economist. Like Mankiw, Sowell’s book eschews formalism, focusing instead on developing the reader’s economic intuition.

In addition to these two books, I will also be assigning journal articles throughout the semester that are relevant to the topics that we are discussing. I assign these papers for two reasons. First, as an undergraduate you’re often not exposed to what it is that professional economists do, namely producing publishable research. Thus, reading these articles provides you with the opportunity to better understand the scientific dialogue that takes place among economists. Second, the articles that I am assigning are either considered “classics” in their respective area, or are a useful supplement to the material that we will be discussing. These articles are available through the GMU Library’s e-journal finder.

Lastly, I recommend that you purchase a copy of Snowdon and Vane’s (2005) *Modern Macroeconomics*. While you will not be explicitly evaluated over the material covered in this volume, a few of my lectures will be based on chapters from this book. Additionally, since *Modern Macroeconomics* is a survey of modern macroeconomic thought, it will be a valuable resource for the group project that you will be working on throughout the semester.⁴ Lastly, for those of you who are considering a graduate degree in economics, I strongly encourage you to master the material in this book *prior* to starting graduate school, especially if you’re interested in becoming a macroeconomist.

4. EVALUATION AND GRADING

Your grade in this course consists of weekly quizzes (30%), three problem sets (10%), a group project (20%), and two exams (40%). I will discuss the specific details of these assignments in class.⁵

The weekly quizzes will take place every Tuesday at the beginning of class, and will be based on both the assigned readings for that week and the lectures from the previous week. Consequently, attending class and completing the assigned readings will be essential to successfully completing this course. I will drop your lowest quiz grade to allow for any unexpected events that prevent you from attending class. There will not be any make-up quizzes – no exceptions.

The problem sets will consist of questions from each chapter in Mankiw’s textbook. These assignments are intended to aid in your understanding of the analytical tools that we will be exploring this semester. Mastering these tools is key to doing well on the examinations. Thus, I strongly encourage you to take these problem sets seriously. I also encourage you to work together on the problem sets. All

⁴ See section 4 for details.

⁵ There will also be opportunities for extra credit that I will discuss in class.

assignments are due at the beginning of class, and cannot be submitted via email. There will not be any make-up problem sets – no exceptions.

The purpose of the group project is to improve your familiarity with the business cycle theories that we will be exploring this semester. The project will have two components: a research paper and a group debate. Each group will be assigned a different business cycle theory that they must research and defend. The debates will take place during the last week of class, and the research paper will be due the last day of class.

Each exam will consist of multiple choice and true/false questions as well as analytical questions. If you miss the midterm examination for any reason, then the final examination will be worth 40%. In accordance with University policy, if you have three or more exams on the date of the final examination, you may reschedule the final examination. To do so, you must contact me no less than one week prior to the final examination. There will not be any make-up exams – no exceptions.

5. SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS

5.1. Week 1: The Science and Data of Macroeconomics

Dates: 1/23, 1/25

Required Reading:

- Mankiw, Chapters 1 and 2
- Sowell, Chapters 1, 2, 4, and 26
- Lucas, *What Economists Do* (2011)

Recommended Reading:

- Snowdon and Vane, Chapters 1 and 2

5.2. Week 2: National Income

Dates: 1/30, 2/1

Required Reading:

- Mankiw, Chapter 3
- Sowell, Chapters 5, 6, 10, and 16
- Alchian, *Uncertainty, Evolution, and Economic Theory* (1950)

5.3. Week 3: Understanding Consumer Behavior

Dates: 2/6, 2/8

ASSIGNMENT: Problem Set 1 Distributed 2/6

Required Reading:

- Mankiw, Chapter 16
- Modigliani, *Life Cycle, Individual Thrift, and the Wealth of Nations* (1986)

5.4. Week 4: The Theory of Investment

Dates: 2/13, 2/15

Required Reading:

- Mankiw, Chapter 17

- Sowell, Chapters 13-15
- Higgs, *Regime Uncertainty* (1997)

5.5. Week 5: The Monetary System and Inflation

Dates: 2/20, 2/22

Required Reading:

- Mankiw, Chapters 4 and 5
- Sowell, Chapter 17
- Radford, *The Organization of a P.O.W. Camp* (1945)

5.6. Week 6: The Open Economy

Dates: 2/27, 3/1

Required Reading:

- Mankiw, Chapter 6
- Sowell, Chapters 21 and 22
- Kessel & Alchian, *Effects of Inflation* (1962)

5.7. Week 7: Unemployment and the Labor Market and Midterm Examination

Dates: 3/6, 3/8

ASSIGNMENT: Problem Set 1 Due 3/6

MIDTERM EXAMINATION (3/8)

Required Reading:

- Mankiw, Chapter 7
- Sowell, Chapters 3, 11, and 12
- Alchian, *Information Costs, Pricing, and Resource Unemployment* (1969)⁶

*****SPRING BREAK: NO CLASS ON 3/13 AND 3/15*****

5.8. Week 8: Economic Fluctuations and Aggregate Supply

Dates: 3/20, 3/22

ASSIGNMENT: Problem Set 2 Distributed 3/20

Required Reading:

- Mankiw, Chapters 10 and 14
- Friedman, *The Role of Monetary Policy* (1968)

5.9. Week 9: Dynamic Model of Economic Fluctuations

Dates: 3/27, 3/29

Required Reading:

- Mankiw, Chapter 15
- Lucas, *Understanding Business Cycles* (1977)

⁶ On Blackboard.

5.10. Week 10: The IS-LM Model

Dates: 4/5 (**No Class on 4/3**)

Required Reading:

- Mankiw, Chapters 11 and 12
- Hicks, *Mr. Keynes and the "Classics"; A Suggested Interpretation* (1937)

Recommended Reading:

- Snowdon and Vane, Chapter 3

5.11. Week 11: The Mundell-Fleming Model and Monetarism

Dates: 4/10, 4/12

ASSIGNMENT: Problem Set 2 Due 4/12

Required Reading:

- Yeager, *A Cash-Balance Interpretation of Depression* (1956)

Recommended Reading

- Snowdon and Vane, Chapter 4

5.12. Week 12: Austrian and Real Business Cycle Theories

Dates: 4/17, 4/19

ASSIGNMENT: Problem Set 3 Distributed 4/17

Required Reading:

- Garrison, *Time and Money: The Universals of Macroeconomic Theorizing* (1984)
- Plosser, *Understanding Real Business Cycles* (1989)

Recommended Reading:

- Snowdon and Vane, Chapters 6 and 9

5.13. Week 13: Stabilization Policy and Government Debt

Dates: 4/24, 2/26

Required Reading:

- Mankiw, Chapters 18 and 19
- Sowell, Chapters 18-20 and 27
- Abrams, *How Richard Nixon Pressured Arthur Burns* (2006)

5.14. Week 14: Battle of the Business Cycles

Dates: 5/1, 5/3

ASSIGNMENT: Problem Set 3 Due 5/3

ASSIGNMENT: Research Paper Due 5/3

ASSIGNMENT: Group Debates 5/1 and 5/3

*****FINAL EXAM: Thursday, May 10, 7:30-10:15am*****

6. ADDITIONAL INFORMATION

The George Mason University Honor Code requires all members of this community to maintain the highest standards of academic honesty and integrity. Cheating, plagiarism, lying, and stealing are all prohibited. All violations of the Honor Code will be reported to the Honor Committee.

If you are a student with a disability and you need academic accommodations, please see me as early as possible, and contact the Disability Resource Center (DRC) at 703-993-2474. All academic accommodations must be arranged through that office.

Occasionally, I may need to update students on class activities and assignments. I will be emailing students at their GMU email address. Students are responsible for checking this email regularly.

7. REFERENCES

- Abrams, B. A. (2006). How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes. *The Journal of Economic Perspectives*, 20(4), 177–188.
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- Radford, R. A. (1945). The Economic Organisation of a P.O.W. Camp. *Economica*, 12(48), 189–201.
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- Sowell, T. (2014). *Basic Economics* (5 edition). New York, NY: Basic Books.
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