Master of Professional Studies in
APPLIED ECONOMICS

Econ 642: Topics in Applied Macroeconomics

Course Information and Syllabus
Fall 2017

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Office: Morrill 1102C
Office Hours: Thursdays 5:30-6:15, and by appointment
Lecture: Thursdays 6:30-9:15 p.m. (Note that there will be a 15-minute break sometime between 7:30 and 8:15)
Class Location: Tydings 2111
Teaching Assistant: Heehyun Lim
Teaching Assistant Office: Morrill 1102D
TA Office hours: TBA, but probably Mon-Thurs 5:15-6:15 in Morrill 1102D
Teaching Assistant Email: CPmastersTA@econ.umd.edu

A. Overview

In this class we will develop models to explain the performance and structure of the economy as a whole in both the long and short run. These models will provide a set of tools to understand the determinants of gross domestic product, inflation and unemployment and the effects of monetary and fiscal policies on these variables. By the end of the course you should be able to analyze the economic effects of government policies and identify and interpret key leading and lagging economic indicators.

B. Course Objectives

The class objectives are aimed to coordinate with the objectives of the degree program. Our program has 7 general learning outcomes for students:

1. Ability to understand, evaluate and analyze economic data
2: Ability to understand and interpret statistical evidence from economic data
3: Ability to apply empirical evidence to assessing economic arguments
4: Ability to apply macroeconomic theories to policy discussions
5: Ability to apply microeconomic theories to policy discussions
6: Ability to communicate economic ideas to a broader audience
7: Ability to evaluate the effectiveness of policy programs using sound economic techniques

The learning outcomes that pertain to this course are: 1, 4, 6 and 7.

C. Required Text and Supplemental Materials

The main focus will be on the readings and lecture materials. The only required text for class is ***Macroeconomics***, Ninth Edition, by N. Gregory Mankiw, 2016. (ISBN-10: 1-4641-8289-2; ISBN-13: 978-1-4641-8289-1). I also include supplemental readings on the syllabus, for those interested in later pursuing a PhD. We will sometimes discuss the contents of these readings in class, but they are not required reading.

D. Prerequisites

Admission to the Master of Professional Studies Program in Applied Economics. Note: Admission to the program requires grades of at least B in an introductory macroeconomics course and at least B- in an introductory course in calculus.

E. Course Requirements

The course grade will be averaged together with the following weights:

Midterm 1	25%
Midterm 2	25%
Final	30%
Problem Sets	15%
Participation/In-Class Assignments and Discussion	5%

Exams. The exams will look similar in many ways to the problem sets, so successfully completing the problem sets will greatly assist you in studying for exams. If you feel you have not mastered a problem from the problem sets, please let me know and we can help you understand the concepts covered. This is good preparation for exams.

Problem Sets. Problem sets will typically be questions from the book. We will do some of the questions in class, and you are welcome to collaborate on the problems with classmates. But each person must turn in their own problem sets, written in their own hand.

F. Letter Grades

Using the above course requirements, letter grades will be determined in the following table:

93-100	A
90-92	A-
80-89	B+
70-79	B
60-69	B-
50-59	C+
40-49	C
30-39	C-
20-29	D+
10-19	D
0-9	F

G. Late Penalty

All homework, assignments and discussions are subject to late penalties. The penalties are as follows: 20% for first day, 25% for second day, 30% for third day, 35% for fourth day, 40% for fifth day, 45% for sixth day, 50% for seventh day and so on. Late penalties apply except when prior approval is obtained.

H. Tentative Outline of Major Topics / Assigned Readings

The course will follow the textbook. We will generally cover 1-2 chapters per week. There are more chapters than weeks in the semester, so a number of the chapters will be emphasized more than others.

Week	Date	Reading (Before class)	Assignment	Exams
1	August 31	Chapters 1, 2, 3		
2	September 7	Chapter 4, 5		
3	September 14	Chapter 6, 7	Problem Set 1 Due	
4	September 21	Chapter 8		
5	September 28	Chapters 8, 9	Problem Set 2 Due	
6	October 5	Chapter 10		Midterm 1 (90 Min)
7	October 12	Chapter 11		
8	October 19	Chapter 12	Problem Set 3 Due	

9	October 26	Chapter 13		
10	November 2	Chapter 14	Problem Set 4 Due	
11	November 9	Chapters 15		Midterm 2 (90 min)
12	November 16	Chapter 16, 17	Problem Set 5 Due	
13	November 23	Thanksgiving - No Class		
14	November 30	Chapter 19	Problem Set 6 Due	
15	December 7	Chapter 20		
16	December 14			Final Exam (Full class)

Detailed Class Schedule for Assignments and Readings

A. Week 1 (August 31): Introduction, Data, and Measurement

a. Required Reading: Mankiw, Chapters 1-3 Introduction and Measurement

b. Supplemental Readings
   i. Lucas, Robert, "In Defence of the Dismal Science," The Economist, August 6, 2009
   ii. Bernanke, Ben "When Growth is Not Enough," speech, June 26, 2017
   iii. "The Trouble with GDP," The Economist, April 30, 2016
   iv. Ingraham, Christopher, "Richer Countries Have More Leisure Time, with One Big Exception," Washington Post, February 19, 2016
   v. Feldstein, Martin, "Underestimating the Real Growth of GDP, Personal Income, and Productivity," Journal of Economic Perspectives, Spring 2017
   vi. "Alternative Unemployment Rates: Their Meaning and their Measure," Federal Reserve Bank of Philadelphia, March 12, 2014
   vii. "Anatomy of Thrift," The Economist, September 22, 2005

B. Week 2 (September 7) The Monetary System and Inflation

a. Required Reading: Mankiw, Chapters 4, 5.

b. Supplemental Readings
   i. The Federal Reserve System: Purposes & Functions, Available for download at Fed website: https://www.federalreserve.gov/aboutthefed/files/pf_complete.pdf
   ii. "U.S. Inflation Remains Low, and That's a Problem," New York Times, July 24, 2017.
   iii. "What is Inflation and How Does the Federal Reserve Evaluate Changes in the Rate of Inflation," Federal Reserve FAQs
   iv. Friedman, Milton and Anna J. Schwartz (1963), "A Monetary History of the United States," Princeton University Press
   v. Sargent, Thomas J. and Neil Wallace (1973), "The Stability of Models of Money and Growth with Perfect Foresight," Econometrica, 41(6), pp. 1043-1048
   vi. Wynne, Mark, Core Inflation: A Review of Some Conceptual Issues (May 1999). ECB Working Paper No. 5. Available at SSRN: https://ssrn.com/abstract=355143
   vii. Bahmani-Oskooee, Mohsen and Barry, Michael, The Purchasing Power Parity and the Russian Ruble (1997). Comparative Economic Studies, Vol. 39, Issue 1, pp. 82-94, 1997. Available at SSRN: https://ssrn.com/abstract=1662297 or http://dx.doi.org/10.1057/ces.1997.4
   viii. Lindsey, D.E., A. Orphanides, and R.H. Rasche. 2004. "The Reform of October 1979: How It Happened and Why." Prepared for the Conference on Reflections on Monetary Policy 25 Years after October 1979, Federal Reserve Bank of St. Louis, Oct. 2004. http://research.stlouisfed.org/conferences/smallconf/lindsey.pdf

C. Week 3 (September 14) The Open Economy, Unemployment, and the Labor Market

a. **Problem Set 1 Due**

b. Required Reading: Mankiw, Chapters 6, 7

c. Supplemental Readings:
   i. Blanchard, Olivier, "On the Need for (At Least) Five Classes of Macro Models," Peterson Institute for International Economics, April 10, 2017
   ii. Feldstein, Martin, and Charles Horioka (1980), "Domestic Saving and International Capital Flows," Economic Journal, 90(2), pp. 314-329
   iii. Diamond, Peter A. (1982), "Aggregate Demand Management in Search Equilibrium." Journal of Political Economy, 1982(5), pp. 881-894
   iv. Yellen, Janet L. (1984), "Efficiency-Wage Models of Unemployment," American Economic Review, 74(May), pp. 200-205
   v. Solow, Robert M. (1989), "Another Possible Source of Wage Stickiness," Journal of Macroeconomics, 1(Winter), pp. 79-82
   vi. Shapiro, Carl, and Joseph Stiglitz (1984), "Equilibrium Unemployment as a Worker Discipline Device," American Economic Review, 74 (June)
   vii. Ball, Laurence and N. Gregory Mankiw (2002), "The NAIRU in Theory and Practice," Journal of Economic Perspectives, 16(4), pp. 115-136
   viii. Fischer, Stanley and Franco Modigliani (1978), "Towards an Understanding of the Real Effects and Costs of Inflation," Review of World Economics (Weltwirtschaftliches Archiv), 114(4), pp.810-833

D. Week 4 (September 21) Economic Growth I: Capital Accumulation and Population Growth

a. Required Reading: Mankiw Chapter 8

b. Supplemental Reading
   i. Easterly, William, The Elusive Quest for Growth, chapter 2-3
   ii. "CBO's Projections of Economic and Demographic Trends," Appendix A of The 2016 LongTerm Budget Outlook, Congressional Budget Office, July 12, 2016

E. Week 5 (September 28) Economic Growth II: Technology, Empirics, and Policy

a. **Problem Set 2 Due**

b. Required Reading: Mankiw, Chapter 9

c. Supplemental Reading:
   i. Sichel, Dan, "Can the U.S. Economy Sustain 3½ to 4 Percent Economic Growth?,"
   ii. Econofact, January 25, 2017
   iii. Ip, Greg, "How Demographics Rule the Global Economy," Wall Street Journal, November 22, 2015
   iv. Ip, Greg, "Why Isn't Automation Eating Jobs? Greg Ip vs. Ryan Avent," Wall Street Journal Real Time Economics, May 16, 2017.

F. Week 6 (October 5) Introduction to Economic Fluctuations

a. **Midterm 1 (for 90 minutes of class)**

b. Required Reading: Mankiw, Chapter 10

c. Supplemental Readings
   i. Liesman, Steve, "Can the Markets Predict Recessions? What We Found Out" CNBC, February 4, 2016
   ii. Ahir, Hites and Prakash Loungani, "Can Economists Forecast Recessions?", October 2014
   iii. Buttonwood, "Why People Don't Tend to Forecast Recessions," July 21, 2016
   iv. Krugman, Paul, "How Did Economists Get It So Wrong?" The New York Times, September 2, 2009

G. <u>Week 7 (October 12) Aggregate Demand I: Building the IS-LM Model</u>

a. Required Reading: Mankiw, Chapter 11

b. Supplemental Readings:
   i. "Murder Most Foul: When Periods of Economic Growth Come to an End, Old Age is Rarely to Blame," The Economist, May 21, 2016
   ii. Ip, Greg, "Why Soaring Assets and Low Unemployment Mean It's Time to Start Worrying," The Wall Street Journal, July 5, 2017 (there is also an accompanying podcast)

H. <u>Week 8 (October 19) Aggregate Demand II: Applying the IS-LM Model</u>

a. Problem Set 3 Due

b. Required Reading: Mankiw, Chapter 12

c. Supplemental Readings
   i. Thoma, Mark. "Is There One Economic Model to Rule Them All?" Fiscal Times, December 2, 2013.
   ii. Krugman, Paul. "IS-LMentary," October 9, 2011
   iii. Summers, Lawrence. "Larrry Summers: A response to Paul Krugman and Brad DeLong," Washington Post, January 2, 2016

I. <u>Week 9 (October 26) Open Economy Revisited: Mundell-Fleming and Exchange-Rates</u>

a. Required Readings: Mankiw, Chapter 13

b. Supplemental Readings
   i. Mankiw, N. Gregory (1985), "Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly," Quarterly Journal of Economics, 100(2), pp. 529-538.
   ii. Fischer, Stanley (1977), "Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule," Journal of Political Economy, 85(1), pp. 191-205

J. <u>Week 10 (November 2) Aggregate Supply / Tradeoff between Inflation and Unemployment</u>

a. Problem Set 4 Due

b. Required Readings: Mankiw, Chapter 14

c. Supplemental Readings:
   i. Taylor, John B. (1979), "Staggered Wage Setting in a Macro Model," American Economic Review, 69(May), pp. 108-113
   ii. Blanchard, Olivier J. (2008), "The State of Macro," NBER Working Paper No. 14259.
   iii. Blanchard, Olivier, "On the Need for (At Least) Five Classes of Macro Models," Peterson Institute for International Economics, April 10, 2017

K. **Week 11 (November 9) A Dynamic Model of Economic Fluctuations**

a. **Midterm 2 (90 minutes of class)**

b. Required Reading: Mankiw, Chapter 15

c. Supplemental Readings:
   i. C. Plosser, "Understanding Real Business Cycles," Journal of Economic Perspectives 3, no. 3, (Summer 1989): 51–77.
   ii. C. Nelson and C. Plosser, "Trends and Random Walks in Macroeconomic Time Series: Some Evidence and Implications," Journal of Monetary Economics 10 (September 1982): 139–67.

L. **Week 12 (November 16) Consumer Theory and Investment Theory**

a. **Problem Set 5 Due**

b. Required readings: Mankiw, Chapters 16, 17

c. Supplementary Readings
   i. K.E. Dynan and D.M. Maki, "Does Stock Market Wealth Matter for Consumption?" Federal Reserve Board Finance and Economics, Discussion Paper 2001-23, May 2001.
   ii. R. Shiller, Market Volatility (Cambridge, Mass.: MIT Press, 1989)
   iii. R. Shiller, Irrational Exuberance (Princeton, NJ: Princeton University Press, 2000) "Asset Pricing IV: Bubbles, Excess Volatility, and Fads."

M. **Week 13 (November 23) THANKSGIVING: NO CLASS**

N. **Week 14 (November 30) Government Debt and Budget Deficits**

a. **Problem Set 6 Due**

b. Required Reading: Mankiw Chapter 19

c. Supplemental Reading
   i. Congressional Budget Office, The 2016 Long-term Budget Outlook, chapter 1
   ii. Elmendorf, Douglas and Louise Sheiner, "Federal Budget Policy with an Aging Population and Persistently Low Interest Rates," Journal of Economic Perspectives, Summer 2017.
   iii. Blanchard, Olivier J. and Jeromin Zettelmeyer, "Will Rising Interest Rates Lead to Fiscal Crises?," Peterson Institute for International Economics Policy Brief, July 2017.
   iv. Wigglesworth, Robin, "Public Finances: A World of Debt," The Financial Times, January 6, 2015.
   v. Rivlin, Alice M., "Rising Debt—Not a Crisis, But a Serious Problem to be Managed," testimony, September 8, 2016.
   vi. Ip, Greg, "Budget Priorities Don't Bode Well for Future," Wall Street Journal September 30, 2015.
   vii. Oya Celasun, Francesco Grigoli, Keiko Honjo, Javier Kapsoli, Alexander Klemm, Bogdan Lissovolik, Jan Luksic, Marialuz Moreno-Badia, Joana Pereira, Marcos Poplawski-Ribeiro, Baoping Shang, and Yulia Ustyugova, "Fiscal Policy in Latin America: Lessons and Legacies of the Global Financial Crisis," IMF Staff Discussion Note, April 2015.

O. **Week 15 (December 7) The Financial System, Financial Crisis, Great Recession**

a. Required Reading: Mankiw, Chapter 20

b. Supplemental Reading:

i. Foote, Chris, Gerardi, K. and P. Willen, "Why Did So Many People Make So Many Ex Post Bad Decisions? The Causes of the Foreclosure Crisis," Federal Reserve Bank of Boston Public Policy Paper #12-2, pages 1-24.
ii. Foote, Chris and Paul Willen, "The Subprime Mortgage Crisis," The New Palgrave Dictionary of Economics
iii. Foote, Chris, Loewenstein, Lara, and Paul S. Willen, "Cross-Sectional Patterns of Mortgage Debt during the Housing Boom: Evidence and Implications," July 2016
iv. Ip, Greg. "What the 'Big Short' Movie Gets Right—and Wrong—about the Financial Crisis," Wall Street Journal, December 11, 2015
v. Wednesday October 25: Causes of the Financial Crisis and the Great Recession II
vi. Financial Crisis Inquiry Commission, "Financial Crisis Inquiry Report," pp. xv-xxviii
vii. Swagel, Phillip, "The Financial Crisis: An Inside View," Brookings Papers on Economic Activity, Spring 2009.

I. Logistical and Program Information and Policies

Our program has policies common to all classes. These policies are shown below.

Course Website: Copies of the course syllabus, your grades, and other relevant links and documents will be posted on the course's ELMS/Canvas website. You can access the site via www.elms.umd.edu. You will need to use your University of Maryland "directory ID" and password.

Email: Email is the primary means of communication outside the classroom, and I will use it to inform you of important announcements. Students are responsible for updating their current email address via http://www.testudo.umd.edu/apps/saddr/ AND for paying attention to messages I send to the class via ELMS. Failure to check email, errors in forwarding email, and returned email due to "mailbox full" or "user unknown" will not excuse a student from missing announcements or deadlines. I will do my best to respond to email within 36 hours.

Work Load: Mastering the material covered in this course requires a significant amount of work outside of class. Students should expect to spend more time outside of class than in class – typically at least twice as much time.

Academic Integrity: The University of Maryland has a nationally recognized Code of Academic Integrity, administered by the Student Honor Council. This Code sets standards applicable to all undergraduate and graduate students, and you are responsible for upholding these standards as you complete assignments and take exams in this course. Please make yourself aware of the consequences of cheating, fabrication, facilitation, and plagiarism. For more information see www.studenthonorcouncil.umd.edu

Student Conduct: Students are expected to treat each other with respect. Disruptive behavior of any kind will not be tolerated. Students who are unable to show civility to one another or myself will be referred to the Office of Student Conduct. You are expected to adhere to the Code of Student Conduct.

Excused Absences: The University of Maryland's policy on excused absences is posted here:
http://www.president.umd.edu/administration/policies/section-v-student-affairs/v-100g

Please note: If you miss any class meetings for any reason, you are still responsible for all material covered during the meeting you missed. It is your responsibility – not the instructor's – to make sure you catch up on the missed material. Instructors routinely facilitate things by posting lecture notes, etc.

If you need to miss an exam or other graded course requirement because of illness, injury, or some other emergency: Follow doctor's orders and get documentation. Get in touch with the instructor as soon as you're able – preferably prior to missing the exam or deadline. Communicate with the instructor to make up the course requirement as soon as possible. You are entitled to recover before you make up the course requirement, but you are not entitled to extra days to study beyond the time the doctor's note says you're incapacitated. If you are incapacitated for more than a week or so beyond the end of the term, your grade in the course will be an "Incomplete". In such cases you must negotiate a plan with your instructor for completing the course requirements. Once you make up the course requirement the instructor will change your "I" to the appropriate letter grade.

School Closings and Delays: Information regarding official University closing and delays can be found on the campus website and the snow phone line: (301) 405-SNOW (405-7669) The program director will also announce cancellation information to the program as an announcement on the program's ELMS/Canvas site. This will generally be done by 1:00 p.m. on days when weather or other factors are an issue. If classes need to be cancelled during the semester, it may be necessary to move the final exam back a week so missed classes can be made up.

Students with Disabilities: The University of Maryland does not discriminate based on differences in age, race, ethnicity, sex, religion, disability, sexual orientation, class, political affiliation, and national origin. Reasonable accommodations will be made to students with documented disabilities. I will make every effort to accommodate students who are registered with the Disability Support Services (DSS) Office and who provide me with a University of Maryland DSS Accommodation form.

Academic Progress: The graduate school requires that students maintain a GPA of at least 3.0. Students whose cumulative GPA falls below 3.0 will be placed on academic probation by the graduate school. Students on academic probation must ask the program's director to petition the graduate school if they want to remain in the program. The petition must include a plan for getting the student's GPA up to at least 3.0. Students who do not live up to their plan can be forced to leave the program without having earned the degree. Note: a grade of "B" corresponds to a GPA of 3.0. A grade of "B-" corresponds to a GPA of 2.7.

Access to Morrill Hall and Morrill 1102: Morrill Hall is locked every day from 7:00 p.m. - 7:00 a.m. Your university ID gives you swipe access to the back door of the building.