Macroeconomic Theory
ECO 701
Section 1
TR 5:30 to 6:45 PM
BEH 213
Stephen M. Miller
BEH 508 (office)
(702) 895-3969 (office)
(702) 895-1354 (fax)
stephen.miller@unlv.edu (e-mail)
http://faculty.unlv.edu/smiller/ (home page)
Spring 2012


Teaching Philosophy: My philosophy flows from three assumptions about the teaching and learning process. First, the instructor must invest sufficient time to develop an up-to-date, comprehensive, challenging, and accessible course. To fulfill this obligation, the instructor must keep current in the developments in the field, both in research findings and teaching methods. Second, the student must invest sufficient time to learn and absorb the course content. To fulfill this obligation, the student must commit to attend class on a consistent basis, to finish all reading and ungraded homework in a timely manner, and to complete all graded course requirements on time. Third, university students must shoulder the burden for fulfilling their end of the bargain. That is, the instructor must assume that the students are adults, responsible for their own actions and behavior.

Learning Objectives: Students who successfully complete this course will understand how to use basic macroeconomic models to consider monetary and fiscal policy questions. Those macroeconomic models rely on several aggregate markets -- labor, goods, and asset markets. The analyses will consider both long-run growth and short-run stabilization issues. Further, while much of the discussion focuses on a closed economy, considerable attention is also given to open economy macroeconomic analysis.

Office Hours: TR 4:00 to 5:30 PM and by appointment.

Evaluation: The course grade will include four components – data analyses, problem sets, brief summaries of research articles, and exams. You will have four (4) data analyses and four (4) problem sets during the semester (25 points each). You will also have two (2) journal articles to write brief summaries and to rewrite and edit for a second submission (50 points each). Finally, you will have a mid-term and (non-cumulative) final (100 points each). Your final grade will be an average of all components (500 points total). The first exam is scheduled for Thursday, March 15 and the final is scheduled for Thursday, May 10.

WebCampus: This course is a WebCampus course. I will post the course outline, homework assignments, other handouts, and so on at the WebCampus site. You can access this site
24/7, except for scheduled maintenance on the system and unexpected downtimes due to technical glitches.

**Academic Misconduct:**
Academic integrity is a legitimate concern for every member of the campus community; all share in upholding the fundamental values of honesty, trust, respect, fairness, responsibility and professionalism. By choosing to join the UNLV community, students accept the expectations of the Academic Misconduct Policy and are encouraged when faced with choices to always take the ethical path. Students enrolling in UNLV assume the obligation to conduct themselves in a manner compatible with UNLV’s function as an educational institution. An example of academic misconduct is plagiarism. Plagiarism is using the words or ideas of another, from the Internet or any source, without proper citation of the sources. See the Student Academic Misconduct Policy (approved December 9, 2005) located at: [http://studentconduct.unlv.edu/misconduct/policy.html](http://studentconduct.unlv.edu/misconduct/policy.html).

**Copyright and Fair Use:**
The University requires all members of the University Community to familiarize themselves and to follow copyright and fair use requirements. You are individually and solely responsible for violations of copyright and fair use laws. The university will neither protect nor defend you nor assume any responsibility for employee or student violations of fair use laws. Violations of copyright laws could subject you to federal and state civil penalties and criminal liability, as well as disciplinary action under University policies. Additional information can be found at: [http://www.unlv.edu/committees/copyright/](http://www.unlv.edu/committees/copyright/).

**Disabilities:**
The Disability Resource Center (DRC) determines accommodations that are “reasonable” in promoting the equal access of a student reporting a disability to the general UNLV learning experience. Faculty will only provide students course adjustment after having received an “Academic Accommodation Plan” from the DRC. UNLV complies with the provisions set forth in Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990. The DRC is located in the Student Services Complex (SSC-A), Room 143, phone (702) 895-0866, fax (702) 895-0651. For additional information, please visit: [http://drc.unlv.edu/](http://drc.unlv.edu/).

**Religious Holidays Policy:**
Any student missing class quizzes, examinations, or any other class or lab work because of observance of religious holidays will receive an opportunity during that semester to make up missed work. The make-up will apply to the religious holiday absence only. It is the student's responsibility to notify the instructor no later than the last day of late registration of his or her intention to participate in religious holidays, which do not fall on state holidays or periods of class recess. This policy shall not apply in the event that administering the test or examination at an alternate time would impose an undue hardship on the instructor or the university which could have been avoided. For additional information, please visit: [http://catalog.unlv.edu/content.php?catoid=4&navoid=164](http://catalog.unlv.edu/content.php?catoid=4&navoid=164).

**Course Outline and Readings:**

I. **Introduction (2 weeks – January 17, 19, 24, & 26))**
   A. Method of Analysis
   B. Measurement Issues
      1. Trends and Cycles
      2. National Income Accounting
      3. Saving and Investment
      4. Price Level and Interest Rates
5. Employment and Unemployment

Readings:

1. Abel and Bernanke (AB), Chapters 1, 8, 2, 5 (pp. 173-185), and 3 (pp. 93-100).
8. Fang and Miller, “Is the Great Moderation Good or Bad?” posted in WebCampus.

II. Microeconomics of Macroeconomics (2½ weeks – January 31, February 2, 7, 9, & 14)

A. Labor Market
   1. Demand for Labor
   2. Supply of Labor
   3. Market Equilibrium

B. Goods Markets
   1. Consumption Demand
   2. Investment Demand
   3. Saving Equals Investment

C. Asset Markets
   1. Demand for Money
   2. Supply of Money
   3. Market Equilibrium

4. Financial Crisis
   1. Typical financial crisis recession

Readings:

1. AB, Chapters 3 (pp. 62-93), 4, 4A, 5 (pp. 185-204), 7, and 14 (pp. 529-540).
III. Long-Run Growth (1½ weeks – February 16, 21, & 23)

A. Determinants of Economic Growth
   1. Labor
   2. Capital
   3. Technology

B. Potential GDP

C. Neo-Classical Growth Models
   1. Solow Model
   2. Optimal Growth Model
   3. Overlapping Generations Model

D. Endogenous Growth Models

E. Convergence Hypothesis
   1. Absolute Convergence
   2. Conditional Convergence

Readings:

1. AB, Chapter 6.

IV. Generic Macroeconomic Model (2 weeks – February 28, March 1, 6, & 8)

A. Aggregate Demand (AD)
   1. Goods market Equilibrium (IS)
   2. Money Market Equilibrium (LM)

B. Aggregate Supply (AS)
   1. Short-Run Aggregate Supply (SRAS)
   2. Long-Run Aggregate Supply (LRAS)

C. Macroeconomic Equilibrium
   1. Long- and Short-Run Equilibrium
Readings:

1. AB, Chapter 9 and 9A.

V. **Alternative Interpretations of Generic Macroeconomic Model (3 weeks – March 13, 15, 20, 22, 27 & 29)**

A. Classical Interpretation
   1. Misperceptions Model and SRAS
   2. Long- and Short-Run Equilibrium

A. Keynesian Interpretation
   1. Sticky Wages and Prices
   2. Long- and Short-Run Equilibrium

2. Financial Crisis
   1. Shadow banking and a traditional bank run
   2. Role of debt in macroeconomic model
   3. Zero-interest-rate bound

Readings:

1. AB, Chapters, 10, 11, 11A, and 11B.

VI. **Unemployment and Inflation (1 week – April 10 & 12)**

A. Expectations Augmented Phillips Curve
   1. Imperfect Information and Rational Expectations
      a. Lucas Supply Curve
      b. Friedman-Phelps Phillips Curve
   2. Policy Implications
      a. Anticipated Versus Unanticipated Policy

B. Dynamic IS-LM-AS Model without LM Curve
   1. Inflation replaces price level
   2. Monetary policy reaction curve replaces money market equilibrium (LM Curve)

Readings:

1. AB, Chapter 12.

VII. **Open Economy Macroeconomic Model (2 weeks – April 17, 19, 24, & 26)**

A. Exchange Rate
   1. Purchasing Power Parity
2. Interest Rate Parity

B. Exchange Rate Determination
1. Short-Run Equilibrium
2. Long-Run Equilibrium

C. Macroeconomic Policy
1. Flexible Exchange Rates
2. Fixed Exchange Rates

Readings:
1. AB, Chapter 13.

VIII. Macroeconomic Policy Analysis (1 week – May 1 & 3)
A. Monetary Policy
1. Central Bank Policy
2. Rules Versus Discretion
B. Fiscal Policy
1. Government Budget Deficits and Debt
2. Government Deficits and Inflation

Readings:
1. AB, Chapters 14 (541-568) and 15.