Macroeconomic Theory  
ECO 701  
Section 1  
MW 5:30 to 6:45 PM  
FDH 215  
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Objective: 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: MW 3:00 to 4:30 PM and by appointment

Evaluation: The course grade will incorporate three components -- problem sets, brief summaries of journal articles, and exams. You will have six (6) problem sets during the semester (20 points each), but only the best five (5) scores count. You will also have four (4) journal articles to read and write brief summaries (25 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.

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Academic Dishonesty: Academic dishonesty (e.g., cheating and plagiarism) will not be tolerated. At the instructor’s discretion, a student suspected of academic dishonesty may receive an F for the course and be expelled from the class. Additional penalties, up to expulsion from the University, are possible.
Disabilities: If you have a documented disability that may require assistance, you will need to contact the Disability Resource Center (DRC) for coordination in your academic accommodations. Disabilities Services is located within Learning Enhancement Services (LES), in the Reynolds Student Services Complex, Suite 137. The phone number is 895-0866 or TDD 895-0652. The e-mail address is drcsssc@ccmail.nevada.edu.

Course Outline and Readings:

I. Introduction (1 week)
   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. 94-101).

II. Microeconomics of Macroeconomics (3 weeks)
   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

Readings:
1. AB, Chapters 3 (pp. 62-93), 4, 4A, 5 (pp. 185-202), 7, and 14 (pp. 521-532).
III. Long-Run Growth (1 week)

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)

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)

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

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

C. Disequilibrium Interpretation
1. Disequilibrium and Consumption
2. Disequilibrium and Unemployment
3. Integration and a Simple Disequilibrium Model

Readings:

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

VI. Unemployment and Inflation (1 week)
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

Readings:

1. AB, Chapter 12.

VII. Open Economy Macroeconomic Model (1 week)
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 (2 weeks)
   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 (533-560) and 15.