

ECONOMICS 728, Fall 2017:

Macroeconomic Theory for Public Policy

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Course Web Page: avenue to learn (<http://avenue.mcmaster.ca/>)

Course Learning Objectives

This course provides a more in depth look into contemporary macroeconomic concepts, theoretical and quantitative analysis. An important learning goal for you is to be able to pick up an academic article and understand the analysis. We will learn how empirical observations help us discern the validity of different models. We will also learn how empirical observations can be used to calibrate economic models, which is a necessary step for quantitative inquiry into important questions. The main learning objective is for you to gain a deeper understanding of how modern economic analysis is conducted. In the meantime, you will learn a number of widely used economic models and results and learn about fiscal and monetary policy.

Topics

We will begin with reviewing macroeconomic measurement, and the basic modeling of consumer and firm behavior. We will then delve into the study of economic growth. The question that remains unanswered is why some countries are poor while others are rich. We will review the Malthusian model, which is successful at explaining the experience of stagnant economies. We will then analyze sources of modern growth and models aimed at capturing the growth experience of post-war period. We will then continue on to talk about fiscal policy, which includes taxation, government spending and social security analysis. In the last part of the course, we will discuss the strand of research on business cycles. In this context, we will discuss stabilization policy (both monetary and fiscal) and study the debate between the Neoclassical and Keynesian approaches, as well as the search theory of unemployment.

Evaluation

There will be one midterm (25% of the final grade), three homework assignments (50% of the final grade) and a final exam (25% of the final grade).

Reading Material

- My lecture notes that will be posted on Avenue to Learn. My notes draw heavily on Williamson's "Macroeconomics" (6th edition, Pearson) as well as Blanchard and Fischer "Lectures on Macroeconomics" (MIT Press). There is no need to buy these textbooks.
- Newspaper and academic journal articles posted on line.

Administrative rules

- Checking the course website, announcements, and your university email is a must.
- *Homework Assignments.* Homework assignments are due at the beginning of the lecture. Assignments submitted during the lecture are considered late. I will accept late homework as long as it is submitted on the day the assignment is due, but the grade will be discounted at 20%. Homework submitted on the next day and later will not be accepted. You are strongly encouraged to work on homework assignments with your classmates and submit the homework assignment for groups of 2 students. Homework assignments for this class are time consuming; you should start working on them as early as possible and bring questions to class before the homework is due. Do not split the work among the members of your group. Each one of you should work on all problems individually. This is the only way to prepare for the exams, as I design my questions with the purpose of helping you achieve a deeper understanding of the class material. When you meet with your group, you must agree on the answers to be submitted and write the work up together. I require that homework assignments are typed (except formulas and graphs).

- *Make up exams.* No make up midterm will be given out. In case of a documented emergency, the weight of the missed midterm will be added toward the final exam. There will be a make up for the final exam only in case of a documented emergency.
- *Missed class.* You are not required to attend. However, it is important to come to class if you want to understand all of the material covered. Although there will be typed lecture notes posted on my website and you should print these out ahead of time, I recommend that you also take class notes as I will explain concepts in more detail. If you do choose to come to class, then you should pay attention. This takes me to my next rule.
- No laptops.
- *Regrading.* Make sure to first understand the answer key that I will provide for each homework and exam before you ask me to regrade your assignment.
- *Class Participation.* I strongly encourage class participation. Please stop me if you are not following. Chances are you are not the only one. Voice your opinion. Question the validity of the theory I am teaching. Don't take my words for granted. Think like a scientist.

Tentative Course Outline, Subject to Change

Approach to macro, measuring Real/Nominal GDP, Inflation
Determination of output and employment, <i>Classical model</i> , concept of a competitive equilibrium
Economic growth facts, <i>Malthusian model</i> ,
<i>Solow model vs. Endogenous growth model</i>
Fiscal Policy, Government Spending and its Financing
Distortionary Taxation (<i>2 period model</i>)
Social Security Analysis (<i>Overlapping generations model</i>)
Business Cycles: Technology Shocks, investment, labor supply (<i>2 period model</i>)
Money, Monetary System, Monetary Policy in the 2 period model (Monetary Neutrality vs non-neutrality), Lucas 1995 (JPE)
Keynesian <i>AS/AD model</i> Analysis and Macro Stabilization Policy (both fiscal and monetary)
Compare and contrast Neoclassical vs. Keynesian Approach to stabilization policy
Unemployment: <i>Search model of unemployment</i>

Midterm Exam: October 27

Final Exam: December 6

Avenue to Learn

Avenue to Learn is McMaster's Learning Management System. I will be using Avenue to Learn (A2L) to post course announcements, files that you can download, and your grades. NOTE THAT ALL REQUIRED READINGS FOR THE COURSE WILL BE AVAILABLE TO DOWNLOAD FROM A2L.

Students should be aware that when accessing electronic components of this course, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course. The available information is dependent on the technology used. Continuation in this course will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with me.

E-Mail Policy

All e-mail communication sent from students to instructors must originate from the student's own McMaster

University e-mail account. This policy confirms the identity of the student. It is the student's responsibility to ensure that communication is sent to the university from a McMaster account. If an instructor becomes aware that a communication has come from an alternate address, the instructor may not reply at his or her discretion.

Academic Ethics

The Senate Policy Statements contain the Senate Statement on Academic Ethics, to which your attention is drawn. The statement explains the expectations that McMaster University has of its scholars. It is the responsibility of each student to adhere to the statement. Breaches of academic ethics fall into two categories:

- disregard for the norms of scholarly integrity, without necessarily intending to deceive;
- academic dishonesty, which is an intentional disregard for the norms of scholarly integrity.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various kinds of academic dishonesty please refer to the Academic Integrity Policy, specifically Appendix 3, located at:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicIntegrity.pdf>.

Academic Accommodation of Students with Disabilities

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail sas@mcmaster.ca. For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities, <http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>.

Course Modification Warning

The instructor and university reserve the right to modify elements of the course during the term.

The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.