Outline for Course on Macroeconomics (II)

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Brief Course Description: This course is the second-half of the introductory Macroeconomics Ph.D. sequence at Gothenburg University. Whereas the first half of the course focuses on growth theory and the theory of fluctuations, this half will focus on the theory of unemployment, monetary policy, and international macroeconomics. The main questions which the course addresses are: what are the causes of unemployment and how can monetary and fiscal policy be used to reduce unemployment? There will also be a small empirical section on macro-econometrics. The course is divided into 12 lectures, covering 9 topics. We begin with an empirical overview of the Great Depression in the United States when unemployment was extremely high and growth very low for many years as well as the experience with “Euroscleurosis” with high unemployment and moderate growth in countries such as Spain during the 1980s and early 1990s. In section II, we move on to the neo-classical synthesis of the Keynesian model. Section III discusses the underlying assumptions about price rigidity made by the neo-classical synthesis of the Keynesian model. Much of modern neo-Keynesian macroeconomics in the 1980s and into the 1990s has focused on “micro-founding” macroeconomic models with price rigidity. Section IV then moves to a more detailed discussion of micro-founded theories of unemployment. Section V discusses the role of monetary policy in reducing unemployment, covering both the Keynesian Phillips curve as well as the Lucas Supply Curve explanations for the observed negative relationship between unemployment and inflation. Section VI turns to a discussion of empirical macro-econometrics, with a particular focus on identifying the role of monetary policy on unemployment reduction. Section VII discusses modern developments in monetary theory and the conduct of monetary policy with particular focus on inflation targeting, central bank independence, central bank transparency, interest rate rules, and seignorage. Section VIII examines the impact of monetary and fiscal policy in an international environment, discussing both the Mundell-Fleming result about the relative power of monetary and fiscal policy in flexible versus fixed exchange rates as well as the overshooting result of Dornbusch concerning the over-reaction of exchange rates to changes in the money supply. Lastly, Section IX concludes by discussing the importance of and sources of nominal as well as real rigidities in generating theories of non-neutral monetary policy.

Course Requirements: Grading will be based upon 4 homework assignments, a final exam, and class participation. The grade breakdown will be: 60% homework and 40% final examination.

Course Arrangement: The course has an instructor (Ethan Kaplan) and a section leader (Heather Congdon Fors).
## Course Schedule:

- **Tuesday, April 5\(^{th}\) 10-13:** Lecture 1 - Ethan Kaplan: Sections I, II
- **Wednesday, April 6\(^{th}\) 10-13:** Lecture 2 - Ethan Kaplan: Sections II, III
- **Thursday, April 7\(^{th}\) 10-13:** Lecture 3 - Ethan Kaplan: Section IV
- **Tuesday, April 19\(^{th}\) 10-13:** Lecture 4 - Ethan Kaplan: Section IV  
  *(Homework #1 Due in Class)*
- **Wednesday, April 20\(^{th}\) 10-13:** Lecture 5 - Ethan Kaplan: Section V
- **Thursday, April 21\(^{st}\) 10-13:** Exercise 1 - Heather Congdon Fors
- **Tuesday, May 3\(^{rd}\) 10-13:** Lecture 6 - Ethan Kaplan: Section VI
- **Wednesday, May 4\(^{th}\) 10-13:** Lecture 7 - Ethan Kaplan: Section VI
- **Monday, May 16\(^{th}\) 10-13:** Exercise 2 - Heather Congdon Fors
- **Tuesday, May 17\(^{th}\) 10-13:** Lecture 8 - Ethan Kaplan: Section VII  
  *(Homework #2 Due in Class)*
- **Wednesday, May 18\(^{th}\) 10-13:** Lecture 9 - Ethan Kaplan: Section VII
- **Thursday, May 19\(^{th}\) 10-13:** Exercise 3 - Heather Congdon Fors
- **Wednesday, May 25\(^{th}\) 10-13:** Lecture 10 - Ethan Kaplan: Section VIII
- **Tuesday, May 31\(^{st}\) 10-13:** Lecture 11 - Ethan Kaplan: Section VIII/IX  
  *(Homework #3 Due in Class)*
- **Wednesday, June 1\(^{st}\) 10-13:** Lecture 12 - Ethan Kaplan: Section IX  
  *(Homework #4 Due in Class)*
- **Wednesday, June 1\(^{st}\) 14-17:** Exercise 4 - Heather Congdon Fors

## Topic Outline

(** refers to required reading)

(1.) **Data on Macro: Great Depression and European “Euroscleurosis”**

2. **Chapters 5.5, 5.6 of Romer Text.**
3. **Time Series Data Sheets (Handouts).**

(II.) **Classical Model:**

1. **Chapter 5.1 of Romer Text.**

(III.) **Different Assumptions About Price Rigidity (Output, Capital, Labor):**

1. **Chapter 5.3 of Romer Text.**

(IV.) **Unemployment**

a. **Definition**

b. **General Equilibrium Approach**

c. **Efficiency Wage:**
(2.) Chapters 9.2, 9.3, and 9.4 of Romer Text.
d. Implicit Contracts
(1.) **Chapter 9.5 of Romer Text.
e. Insider/Outsider
(1.) **Chapter 9.6 of Romer Text.
f. Search
(2.) Chapter 9.8 of Romer Text.
g. Hysteresis
(2.) **Chapter 9.7 of Romer Text.
h. Aggregate Demand

(V.) Philips Curve, Inflation and Monetary Policy I
a. Phillips Curve: Phillips Curve w/ Monetary Policy: Empirics and Explanations
(2.) **Chapter 5.4 of Romer Text.
b. Lucas Supply Cure and Critique of Lucas Supply Curve:
(2.) **Chapters 6.1-6.3 of Romer Text.
(VI.) Empirics of Monetary Policy

a. Traditional
   (2.) **Chapter 6.3 of Romer Text.

b. Lucas Critique

c. VARS:

d. Other Identification Mechanisms:
   (2.) **Romer, Christina and David Romer, “Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwarz”, NBER Macroeconomics Annual

(VII.) Monetary Policy II

a. Review of Keynesian Theory
   (1.) Chapter 5.1 of Romer Text.

b. Costs of Inflation
   (1.) Chapter 10.9 of Romer Text.

c. Conservative Central Bankers
   (3.) **Chapters 10.4-10.5 of Romer Text.

d. Critiques of Rational Expectations:
e. Central Bank Transparency

f. Interest Rate Rules

g. Inflation Targeting
   (2.) **Chapter 10.7 of Romer Text.

h. Seignorage: Developed and Less Developed Countries, the WTO, and the World Bank/IMF
   (1.) **Chapter 10.8 of Romer Text.

(VIII.) International
a. Mundell-Fleming
   (1.) **Chapter 5.2 of Romer Text.

b. Overshooting

(IX.) Real Rigidities and Nominal Rigidities
a. Real Rigidities
   (3.) **Chapters 6.4 and 6.11 in Romer Text.
b. Nominal Rigidities


(4.) **Chapters 6.8 and 6.9 of Romer Text.