

Economics 500
Macroeconomic Theory and Policy
8:00-9:15am TTH–215 Stipes Hall
Department of Economics and Decision Sciences
College of Business and Technology
Accredited by AACSB International–The Association to
Advance Collegiate Schools of Business
FALL 2011

Instructor: William Polley
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Office Hours: Monday 1:00-2:30pm
Tuesday 9:30-10:30am
Wednesday 1:00-2:30pm
Other times by appointment. See note about office hours below.
Personal web page: <http://www.williampolley.com>
Web page for this course: <http://www.williampolley.com/econ500>

Texts

Romer, David. *Advanced Macroeconomics*, 4th edition. New York: McGraw-Hill. 2012. **REQUIRED**

Bagliano, Fabio-Cesare and Bertola, Giuseppe. *Models for Dynamic Macroeconomics*. Oxford: Oxford UP. 2004. **REQUIRED**

Other articles will be assigned later from a reading list that will be posted on the web page.

If you have a good intermediate macro text from your undergraduate days, keep it as it might come in as a handy reference.

As a math reference, I often use Chiang, Alpha. *Fundamental Methods of Mathematical Economics*. New York: McGraw-Hill (any edition is fine)

E-mail and Web Policies

I will send any e-mail to your WIU e-mail account. If you have another account that you would rather use, you have two choices. You can set up your WIU account to forward to your other e-mail. Ask the UCSS Help Desk if you are unsure of how to do this.

The other option is to provide me with a 2nd e-mail address. However, I will continue to send to your WIU e-mail as a backup. If you do use a non-university e-mail address to receive messages from me, please set your “spam-blocking” settings such that my e-mails will not be bounced back. In most cases, this can be done by adding my e-mail address to your list of contacts or your address book.

Any important announcements regarding coursework will be sent by WIU e-mail and posted on the course web page. You should check your e-mail or the web page at least once between class sessions, preferably the day before. Some assignments may require the use of the Internet.

A Note About Office Hours

At the time of the writing of the syllabus, not all of my committee meeting schedules have been set. Furthermore, there are always unexpected events that may necessitate a change in office hours. In the event that I need to miss an office hour, I will notify you of that fact as soon as practicable either in class or by e-mail/web. I will offer additional office hours to make up for any that are missed.

In the event that a regular committee meeting or other university obligation must be repeatedly scheduled during one of my office hours, I will offer a revised set of office hours. The revised office hours will be sent by e-mail, posted on the web, and announced in class on no less than 3 successive class meetings.

Office hours are an important part of the instructor/student dynamic. You are encouraged to make use of them. In order to make the best use of your time and mine, you are encouraged to attempt to work the problems or other material on your own first. If you have made a good attempt and are still stuck, don't wait until it is too late and don't waste time spinning your wheels.

Graduate students are especially encouraged to see me during office hours to discuss general questions and research projects.

Goals and objectives

This course is one of two graduate courses in macroeconomics. While each course has its own distinct focus and objectives, both address key areas such as the components of GDP, nominal vs. real variables, growth, monetary and fiscal policy, aggregate supply and demand, and the open economy. In this course, you will study a number of models of the macroeconomy—some of which you may have seen at the undergraduate level, some of which will be new to you. We will be exploring these models “from the ground up,” that is, we will be examining the microfoundations of macroeconomics. While the approach is analytical and theory-based, we will pay specific attention to policy implications and conclude the course with a discussion of recent literature on fiscal and monetary policy. The goals and objectives listed below represent *specific* key points around which this particular course is organized. These points represent areas which will be covered by homeworks and exams. By the end of the course, you should be able to

- Explain the basic macroeconomic variables and the measurement issues associated with them.
- Explain the consumption function and various theories concerning consumption including the life-cycle and permanent income hypotheses as well as some of the contemporary literature on consumption and saving.
- Explain the role of investment in various macro models.
- Explain recent theoretical approaches to monetary and fiscal policy, including time-consistency problems.

Attendance policy

Attendance is mandatory for exam days, but not for regular class sessions. However, you are responsible for any material covered on days you do not attend.

Homework

Homework will be assigned from time to time. The homework assignments are meant to give you practice in doing the kind of problems that will be on the exams. After you have had approximately a week to work on the problems, a solution key will be made available. I might give hints or answer clarifying questions before making the key available. After the key is available, I will answer any remaining questions you might have. The reason for doing it this way is to get you to work through the problems yourself. I encourage the formation of study groups to work on the homework problems. If you work in a group, you can turn in one paper from the group with everyone's name on it. The entire group will receive the same grade. The grading of homework is as follows: each problem or question will be graded as satisfactory or unsatisfactory. A satisfactory answer makes only minimal errors, is internally consistent, and demonstrates an understanding of the main concept at work in the problem. Your percentage of satisfactory answers out of the total number of homework problems will be multiplied by 20 and factored in with the exam scores as described below.

There is the potential for extra credit assignments. If extra credit is made available, the assignment will be announced to the class and the class will have some say in determining the due date (depending on the complexity of the assignment and the amount of other work you have at the time).

Exams

Exams consist of problems requiring mathematical, graphical, and written analysis. *Tentative* exam dates (except for the final exam—which is fixed by university policy) are as follows:

Exam 1: September 22, 2011 (Thurs)

Exam 2: October 27, 2011 (Thurs)

Final Exam: 8am, December 13, 2011 (Tues)

All exams are 215 Stipes Hall (the regular classroom) and at the usual class time of 8am. Except for the final exam, these are tentative dates—actual dates will be announced in class beginning no less than three class meetings in advance of the actual date.

Makeup exams and other exam policies

Makeup exams are given when there is an acceptable excuse for missing the exam. Written documentation is required. Serious illness and University sponsored activities are examples of acceptable excuses. Oversleeping or not being prepared are not acceptable excuses. You are expected to be at the exam at the start of the class period. Latecomers without an acceptable excuse will ordinarily be allowed to sit for the exam but will not be given extra time. However, **no late arrivals will be allowed to sit for the exam if any student has already completed the exam and left the classroom.** Calculators without text capability are allowed for exams. If you have any question about whether your calculator is acceptable for exams, please ask me *before the exam day*. Exams are closed book/notes. Please keep any books or notes out of sight during the exam.

Grades

Homework is worth a total of 20 points for the semester. Exams 1 and 2 are worth 20 points each. The final exam is worth 40 points for a total of 100 points in the course.

- A 80 points or more
- B 70-79 points
- C 60-69 points
- D 50-59 points
- F less than 50 points

Topical Schedule

The instructor reserves the right to modify the schedule as necessary.

- Measurement issues in macroeconomics (lecture)
- Basic macroeconomic models (lecture)
- The consumption function–life cycle, permanent income, and other theories (Romer, chapter 8/Bagliano and Bertola, chapter 1)

Exam 1 will be at about here.

- Investment (Romer, chapter 9/Bagliano and Bertola, chapter 2)
- Labor markets (Bagliano and Bertola, chapter 3, Romer chapter 10)
- Microfoundations of sticky price/wage models–New Keynesian Economics (selections from Romer, chapter 6 and 7)

Exam 2 will be at about here.

- Coordination failures and the Lucas-Phelps model (Selections from Romer, chapter 6 and 7)
- Monetary policy and inflation–time consistency, inflation targeting, term structure of interest rates (Romer, chapter 11)
- Fiscal policy–the impact of budget deficits, Ricardian equivalence, political economy (Romer, chapter 12)

In accordance with University policy and the Americans with Disabilities Act (ADA), academic accommodations may be made for any student who notifies the instructor of the need for an accommodation. For the instructor to provide the proper accommodation(s) you must obtain documentation of the need for an accommodation through Disability Resource Center (DRC) and provide it to the instructor. It is imperative that you take the initiative to bring such needs to the instructor's attention, as he/she is not legally permitted to inquire about such particular needs of students. Students who may require special assistance in emergency evacuations (i.e. fire, tornado, etc.) should contact the instructor as to the most

appropriate procedures to follow in such an emergency. Contact Disability Resource Center (DRC) at 298-2512 for additional services.

(http://www.wiu.edu/student_services/disability_resource_center/)

Student Rights and Responsibilities Web Page: <http://www.wiu.edu/provost/students.php>

Academic Integrity Policy: <http://wiu.edu/policies/acintegrity.php>