Macroeconomics\*

**Summer 2017 (DRAFT May 31, 2017)**

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BOB 710

Office Hours: Tuesdays and Thursdays 5:00 pm to 7 pm

\*Disclaimer: Please note that the syllabus may change before or during the class. The most up-to-date syllabus can be found in Blackboard.

**Teaching Assistants:**

**Brittany Grabel** [**grabelb@gmail.com**](mailto:grabelb@gmail.com)

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**Goals**

The course develops an empirically based analytical framework to study the functioning of the economy as a whole. Key issues covered are (1) the determinants of growth of income per-capita; (2) the transmission of business cycles to changes in inflation; (3) the use of monetary policy rules to set interest rates; and (4) the use of unconventional monetary policies. The course’s framework will allow the student to understand questions of interest: How can monetary policy counteract periods of economic contraction? Why has inflation not increased despite the expansion of the money supply?

**Exams:**

**Mid-term: August 4th**

**Final: August 30th (Cumulative)**

**Missed Exam Policy:**

This course rests on the view that while at SAIS, your academic performance always overrides non-academic activities. Therefore, there are no excuses for missing an exam. Missing an exam is an extremely rare event that might be justified under very restrictive circumstances: unanticipated serious/contagious illness, or a loss in the family. Even these rare cases will be considered only after proper documentation (medical with doctor’s note and family illness) is provided in advance to me and the Director of Academic Affairs. If you do not meet these conditions and miss an exam, the corresponding score is 0. If you miss the midterm (again, serious illness or family loss only), you have up to 12 hours after the midterm exam to contact me to let me know that you have or will be bringing to me a valid excuse for the absence from the exam no later than the next business day. If you do not meet this deadline, you will automatically receive a 0 on the exam missed. **Lastly the make-up exam is oral**.[[1]](#footnote-1)†

**Accommodations**

Students needing accommodation need to contact the Director of the Student Life at least three weeks before the accommodations are needed (page 39 of [Details](http://www.sais-jhu.edu/sites/default/files/Red%20Book%20AY%2016-17_0.pdf)).

**Honor Code Statement**

Enrollment at SAIS obligates each student to conduct all activities in accordance with the rules and spirit of the school’s (page 12 of <http://www.sais-jhu.edu/sites/default/files/Red%20Book%20AY%2016-17_0.pdf>). The Honor Code governs student conduct at SAIS. It covers all activities in which students present information as their own, including written papers, examinations, oral presentations and materials submitted to potential employers or other educational institutions. It requires that students be truthful and exercise integrity and honesty in their dealings with others, both inside SAIS and in the larger community. While the Honor code goes well beyond plagiarism, it is important that each student understand what is and what is not plagiarism. The Turnitin software is available to faculty in detecting plagiarism. Plagiarism will definitely result in failure of the paper or exam and may result in failing the course depending on the judgment of the professor.

Email policy:

1. If the question cannot be answered in two lines, then I will answer it during office hours.
2. Questions about grades will not be handled through email but in person during office hours.

Calculation of Course’s Grade:

* + The final score is obtained as the weighted sum of the various evaluation components:

Final score = 0.1•Average of homework + 0.4•Mid-term score + 0.5•Final Exam Score

* + Final scores are normalized to have a mean of 80 and a standard deviation of 10.
  + Final grades will be assigned using a curved distribution with the following ranges (based upon locally large gaps in the total score):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Grade |  | Grade Distributions (%) | | | | |
|  |  | Distribution |  | Fall 2015 | | Fall 2016 | | Spring 2017 |
| Grade | Performance | % of Class\* | Score Needed | Section 1 | Section 2 | Section 1 | Section 2 | Section 1 |
|  |  |  |  |  |  |  |  |  |
| A | Outstanding | 10-20 | Greater than 89 | 15 | 14 | 17 | 22 | 24 |
| A- | Excellent | 15-25 | Greater than 85 and at most 89 | 22 | 26 | 17 | 15 | 28 |
| B+ | Very Good | 20-30 | Greater than 74 and at most 85 | 42 | 44 | 41 | 39 | 28 |
| B | Good | 15-25 | Greater than 70 and at most 74 | 12 | 8 | 11 | 13 | 7 |
| B- | Acceptable Pass | 10-20 | Greater than 64 and at most 70 | 1.5 | 2 | 11 | 7 | 7 |
| C+ | Low Pass | 0-5 | Greater than 59 and at most 64 | 3 | 2 | 0 | 0 | 0 |
| C | Minimal Pass | 0-5 | Greater than 54 and at most 59 | 1.5 | 2 | 2 | 2 | 3 |
| D | Failure | as needed | Greater than 0 and at most 54 | 3 | 2 | 2 | 2 | 3 |

\*These percentages are not fixed; the overall grade distribution may be different. The entries need not add-up to 100 because of rounding.

Students who fail to take a scheduled exam or do not submit a paper by the specified deadline receive an “I” (incomplete) grade ONLY if an extension has been granted by the professor. Professors will only give permission under extenuating circumstances and may require official documentation to support the “I”. The professor’s approval of an Incomplete must be submitted in writing via this **Incomplete Grade Contract** to the Registrar by the grading deadline. If PRIOR approval is not obtained, a “C” grade will be entered for that course. Students should submit all required work by the end of the eighth week of the following semester. Summer does not constitute a semester. Summer students must submit all required work by the end of the eighth week of the fall semester. ***Professors have the authority to assign due dates for all missing assignments.* SAIS policy in the *Red* Book states that after eight weeks into the following semester, no grade higher than a “B+” may be assigned in a course where an Incomplete has been allowed. The Incomplete automatically becomes a failing grade of “D” on the last day of class of the following semester if a grade has not been submitted by that time**. Professors can adjust this default schedule as needed. If an extension is granted for medical reasons, appropriate documentation should be submitted to the Director of Student Life.

**Text**: Charles I. Jones, 2016, *Macroeconomics*, Fourth Edition (Norton Publishers)

Part 1: The Long Run

**Read Chapters 1-4 ahead of the lectures**

*The Solow Growth Model:* Chap. 5 (July 18th)

# *Growth and Ideas:* Chap. 6 (July 20th)

*The Labor Market, Wages and Unemployment:* Chap. 7 and *Inflation:* Chap. 8 (July 25th)

*Homework Assignment 1. Due date: July 26th by midnight.*

Part 2: The Short Run

**Read Chapters 9 and 11 ahead of the lectures**

*Monetary Policy and the Phillips Curve:* Chap. 12 (July 27th)

*Stabilization Policy and the AS/AD framework:* Chap. 13 (Aug. 1st)

*The Great Recession and the Short-Run Model:* Chap. 14 (Aug. 1st and 3rd)

*Homework Assignment 2.*

**Midterm Exam August 4th (Chaps. 5-14)**

Part 3: Inflation Expectations and Monetary Policy (August 3rd – 15th)

Friedman, M. “The Role of Monetary Policy,” *American Economic Review*, March 1968, pp. 1-17.

de Grauwe, P. *International Money: Post-war Trends and Theories.* Oxford University Press, 1997, chapter 4.

de Grauwe, P. *The Economics of Monetary Integration.* Oxford University Press, 1997, chapter 8.

Schelling, T. “Self-command in Practice, in Policy, and in a Theory of Rational Choice,” *American Economic Review*, May 1984, pp. 1-10.

Kydland, F. and E. Prescott[. “Rules Rather Than Discretion: The Inconsistency of Optimal Pla](http://ideas.repec.org/a/ucp/jpolec/v85y1977i3p473-91.html)ns,” [*Journal of*](http://ideas.repec.org/s/ucp/jpolec.html)[*Political Economy,*](http://ideas.repec.org/s/ucp/jpolec.html) June 1977, pp. 473-91.

Fischer, S. “Rules versus Discretion in Monetary Policy,” in the *Handbook of Monetary Economics*, Vol. II (eds. B. Friedman and F. Han), Elsevier Science, 1990.

*Homework Assignment 3*

Part 4: Interest Rates (August 17th)

Chapters 4 and 15 of Ball, L. *Money, Banking, and Financial Markets, 2nd edition, Worth, 2012*

Bernanke, B.: [Blog](http://www.brookings.edu/blogs/ben-bernanke) on interest rates, ongoing

Taylor, J., “A Historical Analysis of Monetary Policy Rules,” in J. Taylor (ed.) *Monetary Policy Rules*, University of Chicago Press, Chicago, 1999

Vice Chairman Fischer on "I'd Rather Have Bob Solow Than an Econometric Model, But …” <https://www.federalreserve.gov/newsevents/speech/50F93E5451E342848B2B9B5E775BF9AE.htm>

FOMC Presentation on 2003, January 30 on modeling interest rates

<http://www.federalreserve.gov/monetarypolicy/files/FOMC20030129material.pdf>

[Vice Chairman Fischer on monetary policy: by rule, by committee, or by both?](http://links.govdelivery.com:80/track?type=click&enid=ZWFzPTEmbXNpZD0mYXVpZD0mbWFpbGluZ2lkPTIwMTcwMzAzLjcwNjkxMDIxJm1lc3NhZ2VpZD1NREItUFJELUJVTC0yMDE3MDMwMy43MDY5MTAyMSZkYXRhYmFzZWlkPTEwMDEmc2VyaWFsPTE2OTA4MzY0JmVtYWlsaWQ9am1hcnF1ZTFAamh1LmVkdSZ1c2VyaWQ9am1hcnF1ZTFAamh1LmVkdSZ0YXJnZXRpZD0mZmw9JmV4dHJhPU11bHRpdmFyaWF0ZUlkPSYmJg==&&&100&&&http://www.federalreserve.gov/newsevents/speech/fischer20170303a.htm): <http://www.federalreserve.gov/newsevents/speech/fischer20170303a.htm>

Vice Chairman Stanley Fischer

Committee Decisions and Monetary Policy Rules

<https://www.federalreserve.gov/newsevents/speech/fischer20170505a.htm?utm_campaign=Hutchins%20Center&utm_source=hs_email&utm_medium=email&utm_content=51818538>

# Bullard, J. “ The Policy Rule Debate: A Simpler Solution”

<https://www.stlouisfed.org/publications/regional-economist/first_quarter_2017/the-policy-rule-debate-a-simpler-solution?utm_source=CBNList&utm_medium=email&utm_campaign=CentralBankerNewsletter>

*Homework Assignment 4*

Part 5: Unconventional Monetary Policy (August 22nd and 24th)

*Large-scale Asset Purchases*

Bernanke, B., 2015, *The Courage to Act*, chapters 7-18

Bernanke, B., 2012, “The Federal Reserve and the Financial Crisis,”

<http://www.federalreserve.gov/newsevents/lectures/about.htm>

B. Bernanke: Develops the logic associated with large purchases of assets by the Federal Reserve

<http://www.federalreserve.gov/newsevents/speech/bernanke20120831a.pdf>

IMF: Documents the evolution of large purchases of assets by several Central Banks at

<http://www.imf.org/external/pubs/ft/fandd/2012/12/dataspot.htm>

Federal Open Market Committee: Discussion of the early stages of the crisis

<http://www.federalreserve.gov/monetarypolicy/files/FOMC20080130meeting.pdf> (pp. 102-158).

*Communication Strategy*

Bernanke, B, 2013, “Communications and Monetary Policy,”

<http://www.federalreserve.gov/newsevents/speech/bernanke20131119a.pdf>

Snider, A., 2016, “Does Forward Guidance Work?”

<http://libertystreeteconomics.newyorkfed.org/2016/09/from-the-vault-does-forward-guidance-work.html#.V-5HdPkrIuU>

Yellen, J., 2011, “Unconventional Monetary Policy and Central Bank Communication,”

<http://www.federalreserve.gov/newsevents/speech/yellen20110225a.pdf>

Yellen, J., 2012, “Revolution and Evolution in Central Bank Communications,”

<http://www.federalreserve.gov/newsevents/speech/yellen20121113a.pdf>

Yellen, J., 2013, “Communication in Monetary Policy,”

<http://www.federalreserve.gov/newsevents/speech/yellen20130404a.pdf>

Reinhart, V., 2003, FOMC Presentation on the Implementation of Monetary Policy:

<http://federalreserve.gov/monetarypolicy/files/FOMC20030625material.pdf> (pages 1-10)

Federal Open Market Committee: Design of the current communications strategy

<http://www.federalreserve.gov/monetarypolicy/files/FOMC20040128material.pdf>

<http://www.federalreserve.gov/monetarypolicy/files/FOMC20040128meeting.pdf> (pp. 12-89)

1. † Examples of *invalid explanations for not taking the exam*: Way too many exams, SAIS sponsored trips, SAIS presentations or forums (or *fora*), delays from working for an internship, wedding attendance, once-in-a-life time meeting with So and So (along with the non-refundable ticket), missing an airplane connection, delays in the metro system, stuck in the elevator, engagements (your immediate family, or your best friend), the guard did not let me in, high-ranking officials (foreign or domestic) needing your views on crucial matters of state. [↑](#footnote-ref-1)