



Macroeconomic Theory

Econ 376

Semester 1 – 2023

Lecturer / Course Co-ordinator

Associate Professor Dr. Dennis Wesselbaum

Room: 622, 6th Floor, Otago Business School

Email: dennis.wesselbaum@otago.ac.nz

Office hours:

By appointment: send me an email (you are very welcome to do so!).

Prerequisite

ECON 202 (Macroeconomics) and either ECON 270 (Introduction to Mathematical Economics) or ECON 271 (Intermediate Microeconomic Theory).

Lecture and Tutorial Information

*Lectures**

Monday, 3.00 – 4.00pm

Tuesday, 12.00 – 1.00pm

Rooms: tba

*Tutorials**

Wednesday, 12.00 – 1.00pm

Rooms: tba

**COVID-19 Notice: All COVID-19 restrictions have been removed. Nevertheless, please follow all recommendations by the government and the University and keep yourself updated.*

More information: <https://www.otago.ac.nz/coronavirus/index.html>.

Overview

I want this to be a paper where students learn about modern macroeconomic methods, but also apply them and foster skills such as academic writing and giving a presentation.

The last couple of years have been exciting years for macroeconomist. The subprime mortgage crisis and the following Great Recession resuscitated the interest in macroeconomic questions and policies. In this paper we will study those questions using state-of-the-art macroeconomic models. What are the effects of monetary and fiscal policy? Should we be concerned about government debt levels? How does quantitative easing work? How does a bank run work and how can we increase financial stability? Macroeconomics over the recent past also focuses on topics such as inequality and the impacts of climate change.

Macroeconomic theory has changed dramatically over the last decades. Academic publications and policy institutions (Central banks, the Treasury, ...) use models based on microeconomic foundations. Those models are mathematically quite sophisticated. Nevertheless, the basic intuition embedded in those models can be explicated by drawing on diagrams and “old generation” models.

Roughly speaking, the course is divided into three main parts. I try to relate to real world events as often as possible.

In the first part, we will have a look at important macroeconomic time series topics and then focus on building intuitive macroeconomic models and analyze monetary and fiscal policy measures in the closed- and open-economy framework. The second part provides a microfoundation of household and firm optimal behaviour. Then, we will combine those two sides of the market and build a stylized general equilibrium model, the workhorse model of macroeconomic research used in central banks and academia, the Real Business Cycle model. Finally, part three considers fiscal policy, government debt, details of monetary policymaking, and discusses models of the Global Financial Crisis.

Support, Interaction, and Expectations

I expect you to be familiar with macroeconomics from ECON 202 and to be familiar with mathematical concepts such as derivatives (if not, I have prepared a math primer to bring you up to speed).

Further, this is a class where the material builds up gradually during the semester. Therefore, I expect you to continuously work and stay up to date. Falling behind can have adverse long-run implications.

I am happy to discuss any questions or concerns you may have about any aspect of the course at any time during the semester. If you have questions please feel free to ask them directly during lectures, after lectures, or during office hours.

I encourage students to work with each other during the semester.

Students are expected to comply with all University rules and regulations. Students are expected to independently inform themselves about those rules and regulations and the details about this paper, especially its assessments.

Learning Outcomes

After completing the course, the successful student will be able to

- describe the process of macroeconomics research and explain the role of theoretical models in that process;
- construct and solve macroeconomic models based on microeconomics fundamentals;
- understand and analyse the underlying economic forces that drive key macroeconomic variables;
- do research (identify topic, use suitable tools to answer the research question, write up a report, and present the results in a seminar-style presentation).

Grading

Summary

Research Project	50% of final grade
Test	50% of final grade

The research project involves picking a topic, doing research (under supervision), writing a report, and presenting the results. Group work is mandatory.

The project is worth 50%. The test will cover the entire paper and is worth 50%. It will be multi-format, for example, it could contain short answer essays, providing graphical solutions, and solving mathematical problems. The test will be *open-book* and *open-note*.

Further details will be discussed during the first lecture.

Date of the test – tba.

Policies

Please consult the associated Blackboard pages or the University webpages for detailed information.

I expect professional behaviour of students. This involves, for example, being on time and to independently inform yourself about rules and regulations, the details about this paper, especially its assessments, as well as the location of materials and assignments on Blackboard. There will not be reminders about dates or deadlines.

Further, students are expected to comply with all University rules and regulations.

Academic Integrity

Academic integrity means being honest in your studying and assessments. It is the basis for ethical decision-making and behaviour in an academic context. Academic integrity is informed by the values of honesty, trust, responsibility, fairness, respect and courage. Students are expected to be aware of, and act in accordance with, the University's Academic Integrity Policy.

Academic Misconduct, such as plagiarism or cheating, is a breach of Academic Integrity and is taken very seriously by the University. Types of misconduct include

plagiarism, copying, unauthorised collaboration, submitting work written by someone else (including from a file sharing website, text generation software, or purchased work) taking unauthorised material into a test or exam, impersonation, and assisting someone else's misconduct. A more extensive list of the types of academic misconduct and associated processes and penalties is available in the University's Student Academic Misconduct Procedures.

It is your responsibility to be aware of and use acceptable academic practices when completing your assessments. To access the information in the Academic Integrity Policy and learn more, please visit the University's Academic Integrity website at www.otago.ac.nz/study/academicintegrity, or ask at the Student Learning Centre (HEDC) or the Library, or seek advice from your paper co-ordinator.

Workload

Note that this is an 18-point semester paper. Under the University's points conventions, an 18-point paper corresponds approximately to an average workload of 12 hours per week (including contact hours), or roughly 180 hours in total over a 15 week period (including the end of semester exam period).

Readings

There is no required textbook. However, check Blackboard for readings (secondary readings).

I can recommend the following books:

Blanchard & Johnson	"Macroeconomics"
Williamson	"Macroeconomics"
Andolfatto	"Macroeconomic Theory and Practice"
Krueger	"Quantitative Macroeconomics: An Introduction"
Jones	"Macroeconomics"
Mishkin	"The Economics of Money, Banking, & Financial Markets"

Schedule (tentative)

<i>Week</i>	<i>Topic</i>
1	Introduction and Macroeconometrics Jones, Ch. 1 and 2
2	The Solow-Swan Growth Model Jones, Ch. 5
3	The Macroeconomic Effects of Climate Change Based on Journal articles
4	Consumption and Investment Jones Ch. 11, 15, 16
5	The Real Business Cycle Model Jones Ch. 15 and 16
6	Income Polarization Based on Journal articles

7	Monetary Policy Mishkin, Ch. 15, 16, 26, Jones Ch. 12, 13
8	The New Keynesian Model Jones, Ch. 12, Mishkin, Ch. 18, 26, 28
9	Fiscal Policy and Government Debt Jones Ch. 17
10	The Financial Crisis Mishkin, Ch. 8 and 11
11	tbd
12	Review
13	Student Presentations

Kaiāwhina Māori | Māori Student Support - Ben Sommerville

Ben is the Kaiāwhina Māori (Māori student support) for Te Kura Pākihi | Otago Business School. He is able to answer any questions you may have about studying here at the University of Otago. He can provide information about scholarships, campus services, pastoral and financial care. Ben is also here to support those students who are studying away from their whānau, hapū and iwi, to ensure they feel safe and supported. He has a passion for the development of Rangatahi and understands the struggles that can come with academic life.

Tel +64 27 513 6991

Email ben.sommerville@otago.ac.nz

Pacific Island Support

Faleviena Faiva

Malo e lelei

Falaviena works part-time in the Dean's Office at the Otago Business School, Division of Commerce. She is of Tongan descent and is one of the Pacific Student Support Facilitator's responsible for all first-year Pacific students in the division.

Falaviena is a University of Otago, Humanities and Commerce graduate and is currently completing a Postgraduate Commerce degree in International Business.

Deans Office, Otago Business School

Division of Commerce

Email: viena.faiva@otago.ac.nz

Cell Phone: 021 279 0914

Jekope Ramala Maiono

Bula Vinaka.

Maiono also works part time in the Dean's Office at the Otago Business School, Division of Commerce. He is of Fijian descent and is the other Pacific Student Support Facilitator responsible for all second-year Pacific students in the division.

Maiono is a University of Otago Commerce graduate, also studying a PHD degree in the Division of Humanities.

Deans Office, Otago Business School

Division of Commerce

Email: jekope.maiono@otago.ac.nz

Cell Phone: 021 279 0871