Course Syllabus

DESCRIPTION AND PREREQUISITES

- The course covers business cycles, economic growth, major macro topics, and their application to fiscal and monetary policy and history.
- This course is to be taken after completing both terms of Introductory Economics. Exceptions will be rare. Calculus will be used.
- Course web page is http://www.econ.yale.edu/~nordhaus/homepage/Econ122_2011.htm
Readings

TEXTBOOK.

For textbook options, see web page.

There are many supplemental readings, available online or on the course web site.

The Mankiw and Ball question.

Schedule

We will generally meet M W 11:35-12:50
We will occasionally meet on Friday for optional special sessions.
Lectures will be posted after the class.
**Tests and Grading**

There will be one mid-term examination, which will take place in class on Wednesday, October 12. The final examination will be three hours and is Dec 12.

There will be four graded problem sets, four ungraded but required problem sets, and a short paper due at the end of the semester.

The grade is based 45 percent on the final exam, 25 percent on the hour tests, and 30 percent on the problems and paper.

Grade distribution.

**Sections**

There will be sections led by teaching fellows from Department of Economics. Each student will be assigned to a section. Sections will go over the analytical material from the course, cover questions raised by students, and review problems and exams.

Tentative section times are:

- Wednesday 7:00-7:50 and 8:00-8:50 pm
- Thursday 4:00-4:50 and 5:00-5:50 pm
- Thurs 7:00-7:50 and 8:00-8:50 pm
Limited enrollment

Limit to 120 students.
The following is the priority list:
  All those who got bumped last year; all seniors and juniors economics majors; other seniors and juniors; sophomores who are declared economic majors as of 7 pm Tuesday.
The balance of shoppers will be selected by lottery.
  Freshmen are not eligible.

Alternatives

Alternative macroeconomics courses:

Econ 122b (Moscarini). Roughly the same with emphasis on labor economics.
Econ 126b (Galenianos). Intensive version. More analytical and mathematical.
For those who have had enough macroeconomics for today...

What is macroeconomics?

- Macroeconomics is the study of the overall behavior of economies (output, inflation, unemployment, trade balance, financial markets, …)
- The interesting point is that the total behaves differently from simple adding up of the parts
  - think of riots and bank runs
The muddle of macroeconomics

“The resources of nature and man’s devices are just as fertile and productive as they were. The rate of our progress towards solving the material problems of life is not less rapid. We are as capable as before of affording for everyone a high standard of life and will soon learn to afford a standard higher still. But today we have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand.”

[ J.M. Keynes, The Great Slump of 1930 ]

Struggling with a great contraction

By Martin Wolf

Financial Times, today

What has the market turmoil of August been telling us? The answer, I suggest, is three big things: first, the debt-laden economies of the high-income countries remain extremely fragile; second, investors have no confidence in the ability of policymakers to resolve the difficulties; and, third, in a time of high anxiety, investors prefer what are seen as the least risky assets, namely, the bonds of the most highly rated governments, regardless of their defects, together with gold. Those who fear deflation buy bonds; those who fear inflation buy gold; those who cannot decide buy both. But few investors or corporate managers wish to take on any longer-term investment risks.
Major themes

There are two major recurrent themes running through macro:

i) Business cycles
ii) Economic growth

Virtually every macroeconomic issue revolves around these issues, or a confusion concerning them.

Business cycles

One major set of issues involves the business cycle. What are business cycles? What are some examples? The Great Recession.
Real GDP over the cycle

Output losses per person in each quarter from the recession ($)

Large GDP "gap"
The Great Recession.

- Housing prices peaked in mid 2006 and have fallen about 40 percent.
- In 2007, investors suddenly discovered that subprime mortgages were much riskier than had been supposed.
- This led to financial problems, especially for highly leveraged financial intermediaries (banks, hedge funds, etc.), bankruptcies, bank runs, and other crises.
- Risk premiums increased, credit was tightened, and there was a financial panic in the fall of 2008.
- The Fed responded forcefully.
- The Congress passed in 2009 a major “stimulus package”
- The federal deficit shot up with recession and stimulus
- But the economy is stuck at high unemployment and relative stagnation ....
Today’s macro dilemma

Monetary policy has “run out of bullets.” This leaves fiscal policy (tax cuts and expenditure increases). But these measures will increase the large and growing government debt.

How should we balance the needs of recovery today and versus reducing government debt in the future?

The exploding government debt

(Percentage of gross domestic product)
Why study macroeconomics?

Because you, yes YOU, may be the next Ben Bernanke – in charge of rescuing the world economy from the wreckage of some future depression!