Macroeconomic Theory, Econ 102

François Geerolf

UCLA

Lectures: Mondays and Wednesdays, 2-3:15pm, Dodd Hall Room 147.

Office hours: Mondays and Wednesdays, 3:15-4:15pm. (Bunche 8389)

Website: https://moodle2.sscnet.ucla.edu/course/view/18S-ECON102-1

Prerequisites: Econ 101.


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Course description. In this course we will examine the forces that determine economic activity in the short-run, the medium run and the long run. Particular emphasis will be placed on the most recent recession associated with the 2007-2009 global financial crisis, to stabilization policies, and the determinants of unemployment and inflation. I will emphasize issues related to open economy macroeconomics, and those which are relevant to policymaking – such as fiscal policy and monetary policy. The class will mostly be concept-based, and will involve some empirical analysis. I will emphasize the importance of macroeconomic statistics, and how to study and interpret them. I will also stress how different macroeconomic theories can be put to scientific testing, and how to choose between competing schools of thought through rigorous statistical testing.

Course Objectives. My objective is that, by the end of the course, you will be able to read, and critically assess writings from The Economist, The Wall Street Journal, or the New
York Times. The bibliography below suggests some readings in relation with the theme of the class. Macroeconomics is everywhere in the news, and I hope to be able to go through the tools you need to understand it better. I will try to be as transparent as possible on which questions have reached broad consensus among macroeconomists (incentives matter, capital accumulation increases GDP, etc.), and which have not (is public debt too high in advanced economies? do Americans save enough? etc.). However, in all these cases I shall give you some arguments for and against each side of the debate, hoping that you will be able to make a more informed opinion.

**Prerequisites.** A strict prerequisite for the class is that you have taken Econ 101. If you do not meet this prerequisite, you are advised to take this course during another term. You should also be familiar with some elementary mathematics. For example, you need to know what a logarithm is. Olivier Blanchard’s *Macroeconomics*, 7th Edition has a mathematical appendix page A-7 (Appendix 2 - A math refresher). We shall review these tools during the beginning-of-quarter TA review sessions, but it is best if you start studying them as soon as possible.

**Need Help?** If you have any question about the material covered during the course, you should consider the following options in order:

1. First, you should never refrain from asking questions during class.

2. Second, you may ask questions during recitation sections. The smaller group should allow you to ask questions more freely. Our teaching assistants are all passionate graduate students, writing a PhD thesis on macroeconomics or other related subjects, so they will be very happy to help you.

3. Third, TAs will hold their office hours. The time of their office hours is available on the Moodle platform.

4. Fourth, you should feel free to ask questions on the discussion board (not by email). We will never respond to questions about contents by email (especially those starting with “is X, Y, Z, test material”), because doing so would be unfair to the rest of the class. In contrast, we commit to respond to all questions on the Moodle Website within 24 hours (either me or the TAs will). Beware! You should start studying for the midterm exam earlier than April 29, 2018 – we will stop answering questions at 6pm the day before each exam (either the midterm on April 30, or the final on June 14).

5. Finally, I will hold regular office hours on Monday and Wednesday afternoons, after the class, in my office 8389, from 3:15 to 4:15pm.

**Readings.** There is one textbook for this course, copies of which have been ordered at the UCLA Bookstore: Olivier Blanchard’s *Macroeconomics*, 7th Edition (without Mylab). The chapters from the class will more or less follow the textbook. Readings are indicated at the end of this syllabus, with a bibliography. Only the material indicated with a 🅩 marker is compulsory reading, and therefore, potentially examinable.

I strongly suggest that you practice from the end of chapter Problems in the Blanchard textbook, in order to prepare for the exam. Some of them will be covered during recitation
sections. In the bibliography below, ★★★★, ★★★, ★★ denote end of chapter Problems which are recommended, by decreasing order of importance.

The Blanchard textbook is also available as an eBook at a lower price; however eBooks cannot be sold back at the end of the quarter. If you choose to use an older edition you are responsible for any differences in the material: having an older edition of the book will not constitute an acceptable excuse for missed homework, or poor performance in the exam.

Exams. Everything that I say during the class, that is covered during recitation sections, is potentially examinable. Therefore, it is absolutely necessary that you attend all lectures! It is encouraged to take notes during the class. As for practicalities: sufficient space will be provided on the sheets to answer. No notes, no books, no smartphones, no calculators, will be allowed during the exam. You need to bring a Scantron 882-E for multiple choice questions. You must bring your UCLA ID in order to take the exam. Without a UCLA ID, you will not be allowed to take the exam.

Final Grade. Your final grade has two components: one midterm exam, and a comprehensive final exam. Your final grade will be given by whichever of these two options gives you the best grade: (Midterm (30%) + Final Exam (70%)) or (Final Exam (100%)). In any case, there will be no makeup exams. If a midterm exam is missed due to a documented serious illness or emergency, the final exam will be worth 100% of your grade. Note that attending the midterm is like an “option value”: you are necessarily better off attending the midterm, no matter what your grade is.

Grade Distribution. As an indication, I will be using roughly the official UCLA Economics Department grade distribution for core classes (Econ 1, 2, 11, 41, 101, 102, 103): (A+/A/A-: 25%), (B+/B/B-: 35%), (C+/C/C-: 25%), (Ds/Fs: 15%).

Regrade Policy. Students who wish to have their midterm or their final examinations regraded should submit a request in written form to their assigned Graduate Student Instructor, clearly explaining why they think they deserve a regrade. If a student requests a regrade, the whole exam will be regraded. Therefore, the grade can increase or decrease.

Other. For more details about policies regarding grading, exams and other matters please refer to the following link: https://www.econ.ucla.edu/undergraduate/. I will adhere to the guidelines specified in this webpage. If you wish to request an accommodation due to a suspected or documented disability, please contact the Center for Accessible Education as soon as possible at A255 Murphy Hall, (310) 825-1501, (310) 206-6083 (telephone device for the deaf). Website: http://www.caе.ucla.edu/
# Preliminary Course Time Table

(Tentative, subject to change)

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<tr>
<th>Date</th>
<th>Topics / Review sessions</th>
<th>Readings</th>
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<tbody>
<tr>
<td>April 2, 2018</td>
<td><strong>1) Math refresher / Intro to Econometrics</strong></td>
<td>App 2-3</td>
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<tr>
<td>April 4, 2018</td>
<td>1 - What is Macroeconomics?</td>
<td>Ch 1-2</td>
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<tr>
<td>April 2, 2018</td>
<td>2 - The Goods Market</td>
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<tr>
<td>April 9, 2018</td>
<td><strong>2) An introduction to the NIPA</strong></td>
<td>App 1</td>
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<td>April 11, 2018</td>
<td>3 - Financial Markets</td>
<td>Ch 4</td>
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<td>April 16, 2018</td>
<td>5 - Financial Markets, Aggregate Demand and the Crisis</td>
<td>Ch 6</td>
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<td>April 18, 2018</td>
<td>6 - The Labor Market</td>
<td>Ch 7</td>
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<td>April 23, 2018</td>
<td><strong>4) Midterm Review Session</strong></td>
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<tr>
<td>April 25, 2018</td>
<td>7 - The Phillips Curve, Unemployment, and Inflation</td>
<td>Ch 8</td>
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<tr>
<td>May 2, 2018</td>
<td><strong>5) The Medium Run</strong></td>
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<td>May 7, 2018</td>
<td>9 - The Facts of Growth</td>
<td>Ch 10</td>
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<td>May 9, 2018</td>
<td>10 - Saving, Capital Accumulation and Output</td>
<td>Ch 11</td>
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<td>May 14, 2018</td>
<td>11 - Technological Progress</td>
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<td>May 16, 2018</td>
<td>12 - Expectations</td>
<td>(Ch 14-15-16)</td>
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<td>May 21, 2018</td>
<td>13 - Openness in Goods and Financial Markets</td>
<td>Ch 17</td>
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<td>May 23, 2018</td>
<td><strong>8) Openness 1</strong></td>
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<td>May 28, 2018</td>
<td><strong>9) Openness 2</strong></td>
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<td>May 30, 2018</td>
<td><strong>10) Final Review Session</strong></td>
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<td>June 4, 2018</td>
<td><strong>11) Openness 2</strong></td>
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<td>June 6, 2018</td>
<td><strong>10) Final Review Session</strong></td>
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<tr>
<td>June 14, 2018</td>
<td><strong>Comprehensive Final Exam (3pm - 6pm)</strong></td>
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Bibliography
(updated throughout the quarter)

This bibliography is preliminary and will be updated throughout the quarter. Only the material indicated with the sign \( \text{\textcircled{F}} \) is compulsory reading, and therefore, potentially examinable. \( \text{\textcircled{★★★}}, \text{\textcircled{★★}}, \text{\textcircled{★}} \) denote end of chapter Problems in the Blanchard textbook which are more particularly recommended, by order of importance, to practice for the midterm and the final exam. Some of them will be covered during the recitation sections. \( \text{\textcircled{★}} \) denote references which are harder to read, but allow you to go deeper. Only \( \text{\textcircled{F}} \) and \( \text{\textcircled{★★★}}, \text{\textcircled{★★}}, \text{\textcircled{★}} \) references are examinable.

1 What is Macroeconomics?

\( \text{\textcircled{F}} \) Lecture 1. Link
\( \text{\textcircled{F}} \) Appendix 1: An introduction to the NIPA. Link
\( \text{\textcircled{F}} \) Chapter 1-2, Macroeconomics, 7th Edition, Olivier Blanchard.
\( \text{\textcircled{★★}} \) Chapter 2, Problems 4, 5, and 6, Macroeconomics, 7th Edition, Olivier Blanchard.
\( \text{\textcircled{★}} \) Chapter 2, Problem 3, Macroeconomics, 7th Edition, Olivier Blanchard.
The Economics of Well Being, Harvard Business Review. Link
Keeping up with the Karumes, The Economist, October 29th, 2015. Link

2 The Goods Market

\( \text{\textcircled{F}} \) Lecture 2. Link
\( \text{\textcircled{F}} \) The Keynesian Cross. Link
\( \text{\textcircled{F}} \) Chapter 3, Macroeconomics, 7th Edition, Olivier Blanchard.
\( \text{\textcircled{★★★}} \) Chapter 3, Problems 5, 6, 7, Macroeconomics, 7th Edition, Olivier Blanchard.
\( \text{\textcircled{★★}} \) Chapter 3, Problems 4, 8, 9, Macroeconomics, 7th Edition, Olivier Blanchard.
\( \text{\textcircled{★}} \) Chapter 3, Problem 10, Macroeconomics, 7th Edition, Olivier Blanchard.
Keynes, John Maynard. The Economic Consequences of the Peace, 1919. Link
\( \text{\textcircled{★}} \) Keynes, John Maynard. The General Theory of Employment, Interest, and Money, 1936. Link
In Japan, the Government Gets Paid to Borrow Money, Wall Street Journal, March 1, 2016. Link

3 Financial Markets

Lecture 3. Link
Chapter 4, Macroeconomics, 7th Edition, Olivier Blanchard.
Emptying the tills, The Economist, August 11th, 2016. Link
Chapter 4, Problem 7, Macroeconomics, 7th Edition, Olivier Blanchard.

4 Goods and Financial Markets: the IS-LM Model

Lecture 4. Link
The Paradox of Thrift. Link
Deficit Reduction and Investment. Link
“Fear the Boom and Bust”: Keynes vs. Hayek Rap Battle. Link
Hicks, J. R. “Mr. Keynes and the ‘Classics’; A Suggested Interpretation.” Econometrica 5, no. 2 (1937): 147–59. Link
Keynes – Useful Economics for the World Economy, Peter Temin and David Vines, MIT Press, 2014. Link

5 Financial Markets, Aggregate Demand and the Crisis

Lecture 5. Link
Chapter 6, Macroeconomics, 7th Edition, Olivier Blanchard.
Chapter 6, Problem 7, Macroeconomics, 7th Edition, Olivier Blanchard.


The Big Short, Adam McKay, 2015. Link Excerpts: Link 1, Link 2. Michael Burry’s UCLA Economics Commencement 2012. Link


The Financial Crisis Inquiry Report, January 2011. Link

6 The Labor Market

Lecture 6. Link


7 The Phillips Curve, Unemployment, and Inflation

Lecture 7. Link


The Phillips curve may be broken for good, *The Economist*, November 1, 2017. Link

The Phillips hydraulic machine. Link
8 The IS-LM PC Model

Lecture 8. Link


How to Teach Intermediate Macroeconomics after the Crisis?, Olivier Blanchard, June 2, 2016. Link


Larry Summers: Advanced economies are so sick we need a new way to think about them, *The Washington Post*, November 3, 2015. Link

9 The Facts of Growth

Lecture 9. Link


10 Saving, Capital Accumulation and Output

Lecture 10. Link

The Solow Growth Model. Link


*Tu'ppence*, Mary Poppins, 1964. Link


The paradox of the paradox of thrift, The Economist, November 18, 2009. Link

11 Technological Progress

Lecture 11. Link

A question of utility, The Economist, August 8 2015. Link
Time to fix patents, The Economist, August 8 2015. Link
Economists understand little about the causes of growth, The Economist, April 12, 2018. Link

12 Expectations

Lecture 12. Link

Cutting edge, The Economist, September 30, 2010. Link

13 Openness in Goods and Financial Markets

Lecture 13. Link
Chapter 17, Macroeconomics, 7th Edition, Olivier Blanchard.
☆☆ Chapter 17, Problem 7, Macroeconomics, 7th Edition, Olivier Blanchard.
☆ Chapter 17, Problem 8, Macroeconomics, 7th Edition, Olivier Blanchard.
On the hamburger standard, The Economist, September 6, 1986. Link
14 The Goods Market in an Open Economy

Lecture 14. Link

European leaders seem determined to remake the “global savings glut” on a massive scale, Financial Times, November 8, 2017. Link

15 Output, the Interest Rate, and the Exchange Rate

Lecture 15. Link

Turkish lira strikes historic low after more than 1% drop, Financial Times, April 5, 2018. Link

16 Exchange Rate Regimes


Standard solution, The Economist, September 23rd 2010. Link

17 Fiscal Policy


There is no significant budget deficit, Olivier Blanchard, Jeffrey Sachs, *New York Times*, March 6, 1981. Link
Why Are US Interest Rates High and Rising?, Martin Feldstein. Link
Blanchard, Olivier; Cottarelli, Carlo (24 June 2010). “Ten Commandments for Fiscal Adjustment in Advanced Economies”. Link
Ignored for Years, a Radical Economic Theory Is Gaining Converts, *Bloomberg*, March 13, 2016. Link
“Bigger Deficits Don’t Always Mean Disaster”, Justin Fox, *Bloomberg View*, April 10, 2018. Link
Mnuchin Urges IMF to ‘Step Up to the Plate’ in Fair Trade Debate, *Bloomberg*, April 20, 2018. Link