School of Economics

Academic Year 2015-16
Term 2

ECON102 - INTERMEDIATE MACROECONOMICS

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Course Objectives:
This course provides the necessary tools to understand the current macroeconomic phenomena and analyze various policy-related issues. First, I will introduce a solid framework in which relevant concepts that one may have learned in microeconomics are combined together for macroeconomic analysis. Then, I will address various macro issues and analyze their fundamental causes in this framework. In the end, students should be able to 1) choose the appropriate models for specific economic issues, 2) give numerical and graphical solutions, 3) explain economic intuitions for the results.

Besides learning macroeconomic concepts and their short-run and long-run relationships, students will get familiar with the way of economic thinking, e.g., identifying key issues, addressing the objectives and the constraints of market participants, solving their optimization problems, and understanding how markets coordinate individual's behaviors.

The course is rigorously structured and conducted at a fast pace. One must clarify doubts at the earliest by contacting me or teaching assistants, or through group discussion with classmates. Problem sets are an integral part of the course and it is imperative that students attempt all problems.

Academic Integrity:
All acts of academic dishonesty (including, but not limited to, plagiarism, cheating, fabrication, facilitation of acts of academic dishonesty by others, unauthorized possession of exam questions, or tampering with the academic work of other students) are serious offences.

All work (whether oral or written) submitted for purposes of assessment must be the student's own work. Penalties for violation of the policy range from zero marks for the component assessment to expulsion, depending on the nature of the offense. When in doubt, students should consult the instructors. Details on the SMU Code of Academic Integrity may be accessed at http://www.smuscd.org/resources.html.

Assessment & Evaluation:

- Class Participation 10%
- Problem sets 15%
- Mid-term Exam (Closed-book) 35%
- Final exam (Closed-book) 40%

Textbook:

- Required: S. D. Williamson, Macroeconomics, Pearson, 3rd and 5th edition.
- Recommended: N. G. Mankiw. "Macroeconomics", 6th, 7th, or 8th edition, Worth.

Supplementary References:

You may read related articles and news reports in newspapers or magazines, e.g., *Financial Times, Wall Street Journals, Economists*. For a broader and deeper analysis on current economic situation, you may read *World Economic Outlook* and *Global Financial Stability Report* published online by International Monetary Fund.

Course Schedule:

Week	Topics	Chapter
1	**Introduction** • Why is macroeconomics relevant for our daily life? inflation and housing bubbles in Singapore growth miracle and slowdown in East Asia • Course requirements and structure **Measurement** • Nominal and real GDP • price index and inflation rate	1, 2
2	***<u>Part I: A Microfounded Approach to Macroeconomics</u>*** **Labor Market Equilibrium: A One-Period Model** • How do consumers decide optimally on the labor supply? • How do firms decide optimally on the labor demand? • Can competitive market lead to Pareto-optimal allocation? **Application**: the US government expenditure in World War II	4, 5
3	**Credit Market Equilibrium: A Two-Period Model** • How do consumers decide optimally on savings? • Ricardian Equivalence: when can a tax cut be a free lunch? **Application*:*** tax cut in Singapore social security systems in Singapore vs. in Europe Challenges of declining fertility rate and population aging	8, 9

4	**A Real Intertemporal Model with Investment** • How do firms decide optimally on investment? **Application**: housing investment in U.S. and in Singapore • Bring the labor market and the credit market together **General Equilibrium Analysis with Intertemporal Optimization** **Application**: Information Technology booms in 1990s	10
5	**Monetary Intertemporal Model** • Why do we need money? The past, the present, the future • Introduce money into the real intertemporal model • Optimal long-run monetary policy – the Friedman Rule **Application**: Challenges for central banks: financial innovation and cashless economy	11, 16
6	***<u>Part II: Economic Growth</u>*** **Empirical Data** • Cross-country differences in income and growth experience **The Solow Model** • Capital accumulation and economic growth Growth accounting: Asian Miracle in 1960-1980s	6
7	**Modern Theory of Economic Growth** • Technological progress • Endogenous human capital accumulation Education matters, • Proximate vs. fundamental causes of growth Culture, geography, or institutions? **Application**: Asia's Growth miracle vs. Africa's growth tragedy **Revision for Mid-Term Exam**	7
8	**Recess**	
9	**Midterm Exam (1.5 hours)** ***<u>Part III Business Cycles</u>*** • Empirics: cyclicality and comovements of macro variables Great depression, great moderation, great recession	3
10	**Market-Clearing Models of the Business Cycle** • Should the government stabilize fluctuations and when? RBC model: TFP shock vs. monetary shock	12

11	**Keynesian Sticky Wage Model** • From sticky nominal wage to aggregate supply curve • From IS-LM to aggregate demand curve • The AS-AD framework **Application**: 2009 Global Financial Crisis and Stimulus Packages	13 **SW 3rd edition**
12	**Unemployment** • Empirical evidence: US baby-boomer vs. China's one-child policy Structural changes and female labor supply • Labor search model: the labor-supply perspective • Efficiency Wage Model: the labor-demand perspective The effectiveness of fiscal policy?	17
13	**Optimal Monetary Policy** • Phillips curve: moving around in 1960-2010 • Expectation-Augmented Philips curve: Money Surprise Model • Central bank learning: the upward shift in 60-80s • Central bank commitment: the downward shift in 80s-00s **Discussions*:*** Volcker recession in 1980s Greenspan put in 1990s-2000s. Bernanke put and QE after the US financial crisis Yellen Covered Call? Monetary policy at the zero lower bound Negative interest rate in Euro area and in Japan What is next?	18
14	**Revision**	
15	**Final Exam (2 hours)**	