

# **WWS 512c: Macroeconomic Analysis (Advanced)**

**Spring 2005**

**MW 10:40-12:10, 01 Robertson Hall**

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Office Hours : Mon 12:15-1:45

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## **Overview**

This course is a survey of macroeconomic theory and policy. It is advanced: relative to 512b,

it is designed for students who are more comfortable with mathematics and who have some

previous exposure to macroeconomics. The ideal background for this course is WWS 511c or

equivalent; an intermediate undergraduate course in macroeconomics; and basic calculus and

statistics or econometrics. Students with more advanced backgrounds may wish to move directly to more advanced courses in macroeconomics. While the broad menu of topics is similar to that of WWS 512b, this class delves more deeply into macroeconomic issues, tackles analytically more challenging topics, and relies more on original journal articles.

This course is about understanding three things. First, how do the U.S. and global economies

work and how should one run an economy? Second, how does one analyze macroeconomic

policy questions from a rigorous economic point of view? The ability to understand and react to an ever-changing environment is aided significantly by a strong understanding of this

problem-solving approach. Finally, the course provides an understanding of the tools and language of modern macroeconomics as preparation for more advanced courses.

## **The Technical Details**

There is a course web page maintained for the course at

[https://blackboard.princeton.edu/pucourse/WWS512C\\_S2005](https://blackboard.princeton.edu/pucourse/WWS512C_S2005). Problem sets, exam solutions,

readings, and handouts will be distributed through this means as well as in class. Links to relevant current events will be maintained here -- interesting economic news may sidetrack

us from our scheduled programming.

The course covers Macroeconomics by Abel and Bernanke (AB) and extensions covered in

lectures and additional readings. Students are responsible for all material in the assigned readings and in the lectures. It is recommended that you do the relevant reading from AB before each week's lectures.

## **Readings:**

Required Text: Abel, Andrew B. and Ben S. Bernanke, *Macroeconomics*, 5th edition (4th edition OK), Addison-Wesley, available at the U-store, Amazon, [www.bn.com](http://www.bn.com), etc.

Additional **required** readings are in the coursepack, and most are on the course webpage. Some suggested optional readings are listed for each week's topic, and optional readings are

on reserve or on-line. Some additional short readings will be handed out in class and/or put on the course webpage.

If you are interested in different/more advanced treatment of some of the central material, other useful sources are:

- Romer, David, *Advanced Macroeconomics*, McGraw-Hill.

- Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT Press.

Students should also keep up with national and international economic conditions and events.

Two good sources for this are [the Economist](http://www.economist.com) ([www.economist.com](http://www.economist.com)), [the Financial Times](http://www.usa.ft.com) ([www.usa.ft.com](http://www.usa.ft.com)).

## **In-class presentations and discussion:**

On Wednesday of each week, several students will make a presentation based on the discussion reading for that week. The presentation is allotted 15 minutes and general discussion will follow for 20 minutes. The presentation and discussion should focus on what

we learn from the reading about macroeconomics and appropriate policies. The discussion

and presentation need not be limited to the assigned article and need not agree with its conclusions.

## **Problem Sets:**

There are problem assignments roughly every other week consisting of problems from AB

and more advanced problems. All problem sets are graded solely on whether or not a solid

and timely effort is made. It is recommended that the problem sets be done in groups in which all individuals collectively work out the problems. It is not appropriate to "free ride"

on a group or individual in the group.

## **Precepts:**

There are weekly precepts, time and location TBA in which problem sets and material covered in class are reviewed.

## **Grading and Exams:**

Final grades are calculated as 40% final exam grade, 20% midterm grade, 20% problem sets,

and 20% in-class presentation and participation. Grades can be appealed in writing only.

If a

student submits a written statement detailing how he/she has been mis-graded, this and the

work in question will be irreversibly re-graded. (Unlike problem sets, exams are closed-book and to be done on one's own.)

**Midterm:** in class, Monday **March 7**.

**Final:** (cumulative) As scheduled during final exam period.

## Course Outline

### Week 1: Economic Measurement; Labor Demand; Productivity

AB chapters 2, 3.1, 3.2. 6.1.

Discussion Paper: Alwyn Young, "A Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore," in O. J. Blanchard and S. Fisher eds, NBER Macroeconomics Annual, 1992, MIT Press, 1992.

Optional: For your use: current and historical values and lots of data are available through [Resources for Economists](#); a set of graphable macroeconomic time-series; the appendix to

[the Economic Report of the President](#); or the database available through AB.

### Week 2: The Labor Market

AB chapters 3.3, 3.4, 3.5, 3.6, 3.A

Discussion Paper: [Murphy, Kevin M., W. Craig Riddell, Paul M. Romer, "Wages, Skills, and](#)

[Technology in the United States and Canada," NBER Working Paper No. W6638, July 1998.](#)

Optional: Nicole M. Fortin and Thomas Lemieux, "Institutional Changes and Rising Wage

Inequality: Is There a Linkage?" *Journal of Economic Perspectives*, 11(2), Spring 1997. in

the [Symposium: Wage Inequality](#).

### Week 3: Economic Growth and Development I: The Solow Model

AB chapter 6.2, 6.3.

[Chad Jones \(1997\), "On the Evolution of the World Income Distribution," \*Journal of Economic Perspectives\*, 11, 19-36.](#)

Discussion Paper: Chapter 12 of Barro and Sala-i-Martin, *Economic Growth*, Second edition, MIT Press.

Optional: [Robert E. Hall and Charles I. Jones, "Why Do Some Countries Produce So Much](#)

[More Output per Worker than Others?" \*Quarterly Journal of Economics\*, February 1999, Vol.](#)

[114, pp. 83-116.](#)

Optional: Romer chapter 1.

Optional: [The World Bank's data and research on growth..](#)

### Week 4: Economic Growth and Development II: New Growth Theory and Policies

Mankiw, N. Gregory, "The Growth of Nations," *Brookings Papers on Economic Activity*, No. 1, 1995.

Romer Chapter 3.1-3.4, 3.6, 3.7.

Discussion Paper: [Acemoglu, Daron, Simon Johnson and James A. Robinson, "The Colonial](#)

**Origins of Comparative Development: An Empirical Investigation**, *The American Economic Review*

Vol. 91, No. 5. (Dec., 2001), pp. 1369-1401.

Optional: Chapter 13 in Jerrod Diamond, *Guns, Germs, and Steel*, Norton, 1997.

Optional: Jones, Charles: *Introduction to Economic Growth*, W.W. Norton and Co.

### **Week 5: Consumption, Saving and Investment**

AB chapter 4

Poterba, James M. "Are Consumers Forward Looking? Evidence from Fiscal Experiments,"

*American Economic Review Papers and Proceedings*, 78(2), May 1988.

Discussion Paper: David S. Johnson, Jonathan A. Parker and Nicholas S. Souleles.

"Household Expenditure and the Income Tax Rebates of 2001" NBER WP 10784, September 2004.

Optional: Romer chapter 7

### **Week 6: Fiscal Policy Focus: Growth, Saving, and Taxes**

Midterm

AB chapter 15

### **Week 7: The Global Economy I: International Trade**

AB chapter 5

Discussion Paper: Frankel, Jeffrey A. and David Romer, "Does Trade Cause Growth?" *American Economic Review*, Vol. 89, No. 3. (Jun., 1999), pp. 379-399.

Optional: Chapter 6, *Economic Report of the President*, February 2000.

Optional: Feldstein, Martin and C. Horioka, "Domestic Saving and International Capital Flows," *Economic Journal*, 90, June 1980.

### **Week 8: Money, Assets and Inflation**

AB chapters 7, 12.3, 15.4.

Discussion Papers: King, Mervyn, "How Should Central Banks Reduce Inflation? - Conceptual Issues" and "Commentary" by Rudiger Dornbusch; Alesina, Alberto and Lawrence H. Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money, Credit and Banking*, Vol.25 No. 2, May 1993, 151-162

Optional: Romer chapter 10

Optional: **Some fun facts on Money**. (<http://www.atl.frb.org/publica/brochure/fundfac/money.htm>)

### **Week 9: The Business Cycle and the IS-LM-FE Model**

AB chapters 8, 9.1-9.5, 9.Appendix, 10.1, 10.2, 11.1, 11.2.

Discussion Papers: Plosser, Charles I., "Understanding Real Business Cycles," *The Journal*

of Economic Perspectives, Vol.3 No.3, Summer 1989, 51-78; Romer, Christina, "The Nation

in Depression," *The Journal of Economic Perspectives*, Vol.7 No.2, Spring 1993, 19-39.

Optional: Romer, David, "The New Keynesian Synthesis," *The Journal of Economic Perspectives*, Vol.7, No.1, Winter 1993, 5-22.

### **Week 10: Monetary and Fiscal policy**

AB chapters 11.3, 11.4, 11.B, 12 and 14

Discussion Paper: Bernanke, Ben and Frederick S. Mishkin, "Inflation Targeting: A new

Framework for Monetary Policy?" *Journal of Economic Perspectives*, 11(2) Spring 1997;  
the

Fed's latest Monetary Policy Report to Congress

(<http://www.federalreserve.gov/policy.htm>)

Optional: Krugman, Paul, "It's Back: Japan's Slump and the Return of the Liquidity Trap,"

Brookings Papers on Economic Activity, No. 2, 1998.

**Week 11: The Global economy II: Exchange rates**

Obstfeld, Maurice and Kenneth Rogoff, *Foundations of International Macroeconomics*, MIT

Press, Chapter 4, 4.1 and 4.2.

AB Chapter 13.

Optional: Obstfeld, Maurice, "International Currency Experience: New Lessons and Lessons

Relearned," *Brookings Papers on Economic Activity*, No. 1, 1995.

Optional: Summers, Lawrence, "Distinguished Lecture on Economics in Government: Reflections on Managing Global Integration," *Journal of Economic Perspectives*, 13(2) Spring 1999.

Optional: Frankel, J. "No Single Currency Regime is Right for All Countries or at All Times," Graham Lecture, Princeton University, April 20, 1999. NBER W.P. No. 7338, September 1999.

**Week 12: Current Policy Focus: Social Security**

Congressional Budget Office, "Social Security: A Primer, September, 2001.

Chapter 6 in the *Economic Report of the President 2004*.

Diamond, Peter, and Peter Orszag, "A Summary of Saving Social Security: A Balanced Approach" July 2004

Optional: Gokhale, Jagadeesh, Laurence Kotlikoff, and John Sabelhaus, "Understanding the

Post-War Decline in U.S. Saving: A Cohort Analysis," *Brookings Papers on Economic Activity* 1, 1996.

Optional: Geanakoplos, John, Olivia Mitchell and Stephen Zeldes, "Would a Privatized Social Security System Really Pay a Higher Rate of Return?" NBER Working Paper 6713,

August 1998.

Optional: Laurence Kotlikoff and Scott Burns, *The Coming Generational Storm*. MIT Press

2004.