

# WWS 512c: Macroeconomic Analysis - Advanced

Spring 2006

(M-W 10:40-12:10)

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Office Hours: Monday 4:15 to 6:15 or by appointment

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## I - Overview

This course is a survey of macroeconomic theory and policy. It is advanced, meaning that 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, d, 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 economics. While the broad menu of topics is similar to that of WWS 512b, this class will delve more deeply into macroeconomic issues and controversies and tackle analytically more challenging topics and material. Also, compared to 512b, this class we will rely less on the textbook and much more on original journal articles.

This course has three objectives. First, learning how the U.S. and global economy work, and what you need to understand macro policy debates. Second, learning how to think analytically about problems such as long run economic growth, business cycles, inflation, unemployment, the conduct and pitfalls of monetary and fiscal policy, trade deficits, alternative exchange rate regimes, and currency crises. The ability to understand and react to an ever-changing environment is significantly enhanced by this formalized approach. Finally, the course provides an understanding of the tools and language of modern macroeconomics, and prepares students for more advanced courses.

## II – Structure of the course

There is a web page maintained for the course; problem sets, exam solutions, readings, and handouts will be distributed through this means as well as in class. It is at: [https://blackboard.princeton.edu/pucourse/WWS512C\\_S2006](https://blackboard.princeton.edu/pucourse/WWS512C_S2006).

The course covers Macroeconomics by Abel and Bernanke (AB) as well as substantial extensions covered in lectures, notes 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.

## **A- Textbook**

Required Text: Abel, Andrew B. and Ben S. Bernanke, Macroeconomics, 5th edition, Addison-Wesley, 2005. Available at the PU store and on-line. (Note: 4<sup>th</sup> edition is OK for almost all the material, provided you are able to occasionally rely on classmates for new sections or exercises.)

If you are interested in a different or more advanced treatment, two other useful sources are:

- Romer, David, Advanced Macroeconomics, McGraw-Hill. (2006; earlier, 2001).
- Jones, Chad: Introduction to Economic Growth, W.W. Norton and Co. 1998

## **B- Other Required Reading**

Additional required readings will be in the course pack and almost all will be accessible via the webpage (electronic syllabus) Optional readings will be on reserve. Some additional short readings will be handed out in class and / or put on the course webpage.

Students should also keep up with national and international economic conditions and events. The best sources are [The Economist](#) and [The Financial Times](#).

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

On Wednesday of most weeks, a group of 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 15 minutes. The presentation and discussion should focus on what we learn from the reading about macroeconomics and appropriate policies. They need not be limited to the assigned article, nor agree with its conclusions.

## **D - Problem Sets**

There will be problem assignments roughly every other week, consisting of problems from AB as well as more advanced problems. Reviewing your problem answers with the answer sheets is highly recommended. You are encouraged to do the problem sets in groups, but they must be handed in individually. Problem sets will be graded on a 1-5 scale.

## **E -Exams**

There will be a midterm on *Wednesday, March 15*, and a final (cumulative), to be scheduled during final exam period.

## **F - Grading**

Final grades are calculated as 40% final exam grade, 20% midterm grade, 20% problem sets, and 20% in-class presentation and participation. They are closed-book, closed-notes. Grades can be appealed in writing only.

# Course Outline and Syllabus

(NB: the timing is indicative only, and may change somewhat depending on the pace of the course and the interests of the class).

## Week 1: Productivity and the Wealth of Nations

AB chapters 2, 3.1, 3.2. 6.1.

[Dornbusch, R. "A Century of Unrivalled Prosperity"](#)

The Economist, "[More or Less Equal?](#)", March 11, 2004 and [Pessimistic on Poverty?](#), (reply by Martin Ravallion), April 7, 2004 .

*Discussion Paper:* [Young, A. "The Tyranny of Numbers," Quarterly Journal of Economics, August 1995, 641-680.](#)

### Optional:

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.

[Resources for Economists: from the White House; a set of graphable macroeconomic time-series](#); the data 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

[Murphy, Kevin M., W. Craig Riddell, Paul M. Romer, "Wages, Skills, and Technology in the United States and Canada" In "General Purpose Technologies and Economic Growth," E. Helpman, ed., MIT Press, 1998.](#)

*Student presentation:* [Borjas, George. "The Economic Benefits from Immigration \(in Symposia: Immigration\). The Journal of Economic Perspectives, Vol. 9, No. 2. \(Spring, 1995\), pp. 3-22.](#) and [Friedberg, Rachel, and Hunt, Jennifer. "The Impact of Immigrants on Host Country Wages, Employment and Growth". The Journal of Economic Perspectives, Vol. 9, No. 2, Spring, 1995, pp. 23-44.](#) (two short papers).

### 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: Long Run 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.](#)

*Student presentation:* [Greg Mankiw, David Romer, and David Weil \(1992\) "A Contribution to the Empirics of Economic Growth", \*Quarterly Journal of Economics\*, 107\(2\): 407-437.](#)

Optional:

Romer, chapter 1.

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

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

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

[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.](#)

*Student presentation:* [Morgan Stanley Equity Pacific Research, \*New Tigers of Asia, India and China: A Special Economic Analysis\*, July 26, 2004](#)

Optional: Romer Chapter 3.1-3.4, 3.6, 3.7.

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

AB chapter 4, chapter 2 update.

[Poterba, James M. "Are Consumers Forward Looking? Evidence from Fiscal Experiments," \*American Economic Review Papers and Proceedings\*, 78\(2\), May 1988.](#)

*Student presentation:* [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

[Summers, Lawrence H., "Capital Taxation and Accumulation in a Life Cycle Growth Model," \*American Economic Review\*, 71\(4\), September 1981. September 2000.](#)

#### **Week 6(i): The Government Budget and Social Security**

AB chapter 15.1, 15.2, 15.3, 15 updates

*Student Presentation:* [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; Liebman, J. \*Reforming Social Security: Not All Privatization Schemes are Created Equal\*, \*Harvard Magazine\*, March-April, 2005.](#)

Optional:

[Geanakopoulis, J., Mitchell, O. and Zeldes, S. "Social Security Money's Worth," \*Prospects for Social Security Reform\*, 1999, in . Mitchell, R. Myers and H. Young, eds., \*Pension Research Council Publications\*, 1999.](#)

[Aurbach, Alan J., Jagadeesh Gokhale, Laurence J. Kotlikoff, "Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy," The Journal of Economic Perspectives, Vol.8, No.1, Winter 1994, 73-94.](#)

### **March 15: Midterm**

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

AB chapter 5, incl. updates

[Economic Report of the President 2006, chapter 8, "Modern International Trade".](#)

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.

[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.

[Campbell, John, "Some Lessons from the Yield Curve," Journal of Economic Perspectives, 9\(3\), Summer 1995.](#)

*Student presentation:* Oya Celasun, R. Gaston Gelos and Alessandro Prati,

[Obstacles to disinflation: what is the role of fiscal expectations?", Economic Policy, October 2004, vol. 19, pp. 441 –](#)

Optional:

Romer 9.1-9.3, 9.7, 9.8.

Sargent, T. "The End of Four Big Hyperinflations", in R. Hall, ed. "Inflation: Causes and Effects" (1982)..

#### **Week 9: The Business Cycle and the IS-LM / AS-AD Model**

AB chapters 8 incl. updates, 9.1-9.5, 9.Appendix, 10.1, 10.2, 11.

[Economic Report of the President 2006, chapter 8, "Expansions Past and Present"](#)

Discussion Papers: [Plosser, Charles I., "Understanding Real Business Cycles," The Journal of Economic Perspectives, Vol.3 No.3, Summer 1989, 51-78;](#) and [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: Inflation and Unemployment**

A.B. Chapter 12

*Student Presentation:* [Blanchard, Olivier \(2006\) European unemployment: the evolution of facts and ideas. \*Economic Policy\* 21 \(45\), 5-59.](#)

Optional: [Ball, L. Mankiw, G. and Romer, D. "The New Keynesian Economics and the Output-Inflation Trade-Off, \*Brookings Papers on Economic Activity\*, Vol. 1988, No. 1. \(1988\), pp. 1-65.](#)

[Barro, R. and Gordon, D. "A Positive Theory of Monetary Policy in a Natural Rate Model," \*The Journal of Political Economy\*, Vol. 91, No. 4. \(Aug., 1983\), pp. 589-610.](#)

## **Week 11: Issues in Monetary and Fiscal policy**

AB chapter 14 incl. update

[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](#)

*Student presentation:* [King, Mervyn, "How Should Central Banks Reduce Inflation? - Conceptual Issues"](#) and ["Commentary"](#) by [Rudiger Dornbusch](#); and [Bernanke, Ben and Frederick S. Mishkin, "Inflation Targeting: A new Framework for Monetary Policy?" \*Journal of Economic Perspectives\*, 11\(2\) Spring 1997](#)

Optional:

[Krugman, Paul, "It's Baack: Japan's Slump and the Return of the Liquidity Trap," \*Brookings Papers on Economic Activity\*, No. 2, 1998.](#)

[The FED's \(Board of Governors\) web site.](http://www.federalreserve.gov/) (<http://www.federalreserve.gov/>)

## **Week 12: The Global Economy II: Exchange Rates**

AB Chapter 13 incl. updates.

[Obstfeld, Maurice and Kenneth Rogoff, \*Foundations of International Macroeconomics\*, MIT Press, Chapter 4, 4.1 and 4.2](#)

*Student presentation:* [Obstfeld, Maurice, "International Currency Experience: New Lessons and Lessons Relearned," \*Brookings Papers on Economic Activity\*, No. 1, 1995.](#)

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.](#)

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

[Obstfeld, M. and Rogoff, K. "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?," \*NBER Macroeconomics Annual\*, 2000.](#)