

**Macroeconomics for Public Policy (PP 345)
Winter 2022**

Instructor: Daniel Sullivan

Office Hours: Email to make an appointment. Good times will likely be Tuesdays about an hour before class or after class.

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Summary: This course examines the functioning of the aggregate economy, including the determinants of long-run growth and the nature of the business cycle. The emphasis will be on the U.S. economy and the impact of monetary and fiscal policies on output, employment, and inflation. Students will use the frameworks developed in the course to analyze current macroeconomic events and policy questions. The course will be similar to an “intermediate level” undergraduate or MBA class, meaning that basic microeconomic theory will be assumed, and that there will be some, but not a large amount of, math. Even when there aren’t explicit equations, rigorous thinking will be required to follow and develop arguments.

The two biggest macroeconomic events of recent years were obviously the financial crisis of 2007-09 and the economic shutdown associated with the 2020 arrival of covid-19. Both caused deep recessions and, in the case of the financial crisis, very protracted economic slumps. The course will discuss a number of issues that have arisen due to these shocks. However, some important topics, such as the origin of the financial crisis, will be beyond the scope of the course. (They would be more naturally be covered in a course on “money and banking” or “financial regulation.”)

Prerequisites: Basic microeconomic theory.

Classes: Lectures will be on Tuesdays from 6:30 to 9:20 with a short break in the middle. I will try to have the slides available on the course website by midafternoon the day of class.

Readings: The textbook for the course is Macroeconomics by Andrew Abel, Ben Bernanke, and Dean Croushore. The current, tenth edition differs from other recent editions principally in its description of recent (but pre-covid) events, mainly in “boxes.” It probably wouldn’t be too inconvenient to use the ninth or even an earlier edition. Just be sure to check that any exercises that are assigned are the same as those in the new edition.

Students should also read additional articles by economists and policy makers as well as selections from such sources as the Federal Reserve (e.g., Congressional testimony and

Federal Open Market Committee (FOMC) meeting transcripts and minutes), and the Congressional Budget Office (e.g., analysis of the Federal budget). Finally, these relatively formal readings will be supplemented with articles from the popular media (Wall Street Journal (WSJ), New York Times (NYT), the Financial Time (FT), Slate, The Economist, etc.), which serve as motivation for the course material and *sometimes* make useful substantive points. (I'll probably also put up a few dopey articles to make fun of.) These will be optional in the sense that I won't ask about them on tests (unless I explicitly say otherwise), but students will get more out of the course if they read the articles. Readings other than the textbook should be accessible through the course website. To get the most out of the supplementary materials, students should do the reading before coming to class.

Macroeconomic Data Releases: During some classes we may discuss one or more of the economic statistics that have recently been released. This will be more meaningful if students read the statistical agency's press release and some of the media coverage before attending class.

Homework: Weekly problem sets will be assigned, with most of the exercises drawn from the end-of-chapter problems and exercises. The assignments should be typed up and submitted to Edward in electronic form. Students may work in groups of up to three. Edward will create a signup sheet to facilitate creating groups. The two problem sets with the lowest score will be dropped. Thus, requests for extensions will be unlikely to be accepted.

Exams: There will be a midterm (not held during class time) and a final.

Macro Policy Essay: Students will write a short essay analyzing the likely effects of some recent event or policy proposal with macroeconomic significance. Students may again work in groups of up to three.

The analysis should make use of the models discussed in class such as the loanable funds model and the ISLM model. Students might also, if they thought it appropriate, make use of other analytical frameworks to analyze proposals or events. (In such cases, it would be best if students sent me an e mail describing roughly what they had in mind before doing a lot of work.) The expectation is that the analysis would be mainly qualitative with conclusions like "proposal X is likely to temporarily raise GDP and interest rates," rather than proposal X is likely to raise GDP by 2% for 6 quarters and lower the 10-year Treasury rate by 50 basis points." Of course, if students want to attempt to draw quantitative conclusions that could be interesting. However, I am not expecting any original empirical analysis.

Analysis of events or policy proposal can be any that seem likely to have a significant effect on all or a major part of some economy. The events or policy proposals don't have to be limited to those effecting the U.S. economy. Indeed, those focusing on other countries have the advantage that I will almost certainly learn something new.

Events could be things like a natural disaster or a big change in the world price of a commodity that is important to a particular economy. A policy proposal could be one that has already been implemented or one that is still being debated. It could involve a change in taxation, government spending, or regulation. Examples of policy proposals might include, Medicare for all, wealth taxation, looser immigration rules, a universal basic income, increased infrastructure spending, temporary or permanent payroll tax increases, stronger antitrust policy, pension reform in France, a change in the Chinese hukou system, or many other policies.

Students should submit one or more ideas for the event or proposal as part of the third weekly homework assignment. If the event or proposal seems too difficult to analyze with the models from class, or it is one I intend to talk about in detail myself, I will suggest they choose a different one.

Alternatively, students who have an interest in some other, less macroeconomic set of public policies could choose to write an essay on how those policies could be affected by different business cycle conditions. For example, how would the policies (e.g. EITC, or affordable housing efforts) fare under a bad recession versus an economic boom. If this alternative seems like it could be of interest, please let me know as soon as possible so that we can talk about it in more detail.

Essays should be about five or six pages of text, plus supporting materials such as graphs and tables. Students should normally work in groups of two or three, but requests to work alone will be considered if someone has a good reason. Essays will be due early in finals week.

Grades: Homework 25%, Midterm 20%, Policy Essay 15%, Final: 40%.

To earn a passing grade, students taking the course pass/fail must: complete and submit all assignments; take both midterm and final exams; and earn passing grades on each assignment and exam.

A tentative schedule is attached. **Note that the Midterm will be on Monday, February 7, rather than during normal class time.**

Class	Topic	Abel, Bernanke, and Croushore	Data Releases (Incomplete)
1 Jan 4	Introduction National accounts Production Functions	1.1-1.3 2.1-2.2, 2.4 3.1	12/22 Final GDP
2 Jan 11	Labor demand Labor supply Labor market equilibrium Unemployment	3.2-3.5	1/6 Exports and imports 1/7 Employment Situation JOLTS

3	Jan 18	Growth Accounting Solow Model Goods market equilibrium Savings and Consumption	6.1, 6.2, 6.4 2.3,	1/12 Consumer Prices 1/13 Producer Prices 1/14 Retail Sales 1/14 Industrial Production
4	Jan 25	Investment Goods market equilibrium	2.5, 4.3, 4.1, 4.A, 4.2, 15.34.3,	1/19 Residential Construction 1/20 Existing Home Sales 1/25 FHFA Home Prices
5	Feb 1	Open Economies Money	5.1-5.5 7.1-7.2	1/26 New Home Sales /26 FOMC Statement 1/27 Advance GDP 1/27 Advance Durable Goods 1/28 Personal Income 1/28 Employment Cost Index Consumer Confidence 1/28 Consumer Sentiment (MI) 2/1 ISM Manufacturing Index
Monday, Feb 7 Midterm, exact time and place to be determined				
6	Feb 8	Inflation Central banking Business cycle facts	7.3-7.5, 12.4, 14.1-14.2 15.4, 15.A, 8.1-8.4	2/3 Productivity and Costs 2/4 Employment Situation 2/8 Imports/Exports
7	Feb 15	IS-LM Model	9.1-9.5, 10.1, 10.3, 11.1-2, 12.2,	2/10 Consumer Prices 2/15 Producer Prices JOLTS
8	Feb 22	Exchange rates and open economy IS-LM AD-AS Model Okun's Law Unemployment and inflation	13.1-13.4, 9.6, 10.5, 3.5-3.6 12.1-12.5	2/16 Retail Sales 2/16 FOMC Minutes 2/17 Industrial Production 2/17 New Home Sales 2/17 Residential Construction 2/18 Existing Home Sales 2/22 FHFA Home Prices
9	Mar 1	Monetary policy topics Fiscal policy topics Current macro situation	11.3-11.4, 14.4 14.5, 15.2-4	2/24 Preliminary GDP 2/24 New Home Sales 2/25 Personal Income 2/25 Consumer Sentiment (MI) Consumer Confidence 2/25 Advance Durable Goods 3/1 ISM Manufacturing Index
Final Exam date, time and place to be determined				