

# Khatam University

## Macroeconomics

---

Course Information	
Professor: Hadi Salehi Esfahani	Dates: 2 Dey – 20 Dey
Phone: Office:	Class Time: Sat-Wed., 10am-12noon
E-mail: <a href="mailto:esfahani@illinois.edu">esfahani@illinois.edu</a>	Office Hours: Sat., Mon., and Wed., 1-2pm

### Course Description

The goal of this course is to provide the students with the essentials of macroeconomic theories and stylized facts to understand and interpret key topics in macroeconomics. The course is designed to serve as part of the foundation for a high quality master's level program in economics. It is intended to help master's level students who have relatively limited background in economics prepare themselves for an economics PhD program or for professional positions that require solid economic training. Learning the material in this course should enable the students to assess their macroeconomic environment for personal, professional, and public purposes.

Macroeconomic conditions play important roles in people's lives: Aggregate income, unemployment, and inflation rate influence the returns to investment, the performance of firms, and the job and income opportunities of individuals. Interest rates determine the cost of capital and the returns to savings, thus shaping savings, capital formation, and firm activity. The exchange rate of an economy's currency affect its international competitiveness and, therefore, the extent and types of employment and investment that can be sustained in the economy.

This course pays particular attention to the macroeconomic consequences of globalization and the roles played by government policies, institutions, and the public's expectations about the future course of the economy. The emphasis on globalization is because international trade and investment are integral parts of today's world economy. Study of macroeconomic policies (both fiscal and monetary) is a major theme in the course because those policies can influence macroeconomic performance in important ways. Individuals, business operators, and policymakers need to understand such effects in order evaluate the consequences of those action for themselves and for the economy as a whole. To do even better, economic actors need to further understand the macroeconomic

policymaking institutions, which are the rules and norms by which governments make their policies. This can help them form ideas about future policies and performance, thus enabling them to make more informed decisions about their economic activities. Understanding market institutions and their roles in the macroeconomy also matters because economic performance is influenced by the manner in which markets and individuals respond to policies. This idea also tells us that economic actors' expectations about how policymakers may behave and how markets may respond to them play critical roles in current actions and plans of individuals, businesses, and governments. We examine how expectations about the future course of the economy may be formed and how they interact with current macroeconomic conditions.

Upon successful completion of this course you will be able to:

- Demonstrate a basic understanding of the macroeconomic system and interpretation of key macroeconomic indicators.
- Understand how the exchange rate is determined and how it interacts with domestic and foreign prices to determine the competitiveness of an economy's producers.
- Analyze the market for money and understand how the interest rate is determined.
- Understand how GDP level and inflation rate are determined in an economy and how macroeconomic factors and monetary and fiscal policies shape them.
- Analyze the key factors that account for the large differences in per capita incomes across countries.
- Identify the characteristics of socially desirable macroeconomic policies and understand why actual policies may deviate from them.
- Assess a country's macroeconomic prospects based on the characteristics of its resources, technology, and policymaking environment.

### **Learning Tools**

Besides lectures, we will maintain discussion on economic issues through the Internet. The course reading material and day-to-day information about the course will be provided through email and online folders. I encourage you to use the course's online board for questions and messages at any time. I will be checking that

board frequently to offer quick responses to your messages. However, in case an urgent problem arises, please do not hesitate to also send a regular email to make sure no time is wasted.

The required readings for the course are a set of Background Notes, a set of slides, and a set of papers, all of which will be made available through an online folder in advance of classes. Background Notes are written in a very concise manner to optimize the time that you need to spend on them. However, you should consult supplemental materials for the course as needed if you feel that the Notes, the slides, and the papers do not provide you with adequate background information and insight. These materials consist of two suggested, not required, textbooks (earlier editions published in the past ten years should also serve the purpose):

Paul R. Krugman, Maurice Obstfeld, and Marc J. Melitz, *International Economics: Theory and Policy*, 11<sup>th</sup> ed., Addison Wesley, 2018.

Gregory Mankiw, *Macroeconomics*, 9<sup>th</sup> Edition, Worth Publishers, 2016.

*The Economist* and *Financial Tribune* also provide important resources on current macroeconomic conditions and will be referenced and used frequently during the course.

### **Assignments and Exams**

For learning and evaluation purposes, there will be three types of assignments. The first type is a series of 12 in-class quizzes designed to help you remain involved during the long class hours! The second type is a series of six problem sets, all of which are take home and open book. The third type consists of a mid-term and a final exam. You can work on quizzes and problem sets in groups, but each student must write his/her own answers individually. To prepare you for the assignments, a set of (non-graded) practice questions will also be provided through an online folder.

The purpose of all these assignments is to help you master the material more effectively and receive fast and frequent feedback on your learning. Because some of you may occasionally have "bad days" or run into problems and miss class, only 10 best quizzes will be taken into consideration for the overall grade. The lowest two quiz grades, including the missed ones, will be discarded.

### **Grading Policy**

The grade in this course will be based on the results of in-class quizzes, assignments, and the final exam as well as peer evaluation by co-team members. The breakdown of the total score for the course is as follows:

<b>Ten Best In-Class Quizzes</b>	10% of total grade (1% each)
<b>Six Assignments</b>	48% of total grade (8% each)
<b>Midterm Exam</b>	15% of total grade
<b>Final Exam</b>	27% of total grade

**ACADEMIC INTEGRITY:** According to the University policy, violation of academic integrity is a serious offense. In the context of assignments and exams of this course, *violating academic integrity is copying of answers from other students or any other source, rather than authoring them.* Quoting from other sources with proper citation is permitted, but that cannot be the entire answer. Quotations could be only part of a discussion and must be merely for clarification or documentation purposes. *Your answers must show that you have understood the material and can argue the case on your own.* Anyone found in violation of academic integrity in this course will be subject to the penalties stipulated by the University. These penalties include, among others, failure for the course or dismissal from the University.

### Schedule of Lectures and Requirements

Date	Topic	Learning Objectives	Assignments
<b>Saturday 2 Dey &amp; Sunday 3 Dey</b>	Key Macroeconomic Indicators and Their Measurement	Why you need to understand macroeconomics. Which variables matter for assessing macroeconomic performance. How to define and measure the key macroeconomic variables.	Background Note 1 Recommended Supplements: Krugman & Obstfeld, Ch. 13 Mankiw, Ch. 1
<b>Monday 4 Dey</b>	GDP Components and Twin Deficits	Understanding the key components of GDP. Understanding the relationship between GDP, budget deficit, and trade deficit.	<b>Submit Problem Set 1</b> Background Note 2 Recommended Supplements: Krugman & Obstfeld, Ch. 13 Mankiw, Ch. 2
<b>Tuesday 5 Dey &amp; Wednesday 6 Dey</b>	The Foreign Exchange Market	Understanding the role of the exchange rate in the economy. Understanding how the exchange rate is determined. How economic conditions and perceptions influence the exchange rate.	<b>Submit Problem Set 2</b> Background Note 3 Recommended Supplements: Krugman & Obstfeld, Ch. 14
<b>Thursday 7 Dey</b>	<b>Midterm Exam</b> (Based on the material covered up to the prior sessions)		

<b>Saturday 9 Dey &amp; Sunday 10 Dey</b>	Money, Interest Rate, and the Exchange Rate	Understanding the role of money in the economy. How money influences the interest rate and the exchange rate.	Background Note 4 Recommended Supplements: Krugman & Obstfeld, Ch. 15 Mankiw, Ch. 4
<b>Monday 11 Dey &amp; Tuesday 12 Dey</b>	Aggregate Expenditure and GDP in the Short Run When Prices Are "Sticky"	Understanding the determinants of aggregate expenditure in the economy. How GDP is determined in the short run when prices are sticky. Fiscal and Monetary Policies in the Short Run	<b>Submit Problem Set 3</b> Background Notes 5 Recommended Supplements: Krugman & Obstfeld, Ch. 17 Mankiw, Chs. 9, 10, & 11
<b>Wednesday 13 Dey &amp; Saturday 16 Dey</b>	Expectations and the Long Run Exchange Rate	The determinants of the exchange rate in the long run. The connections between productivity, economic growth, and the exchange rate.	Background Notes 6 Recommended Supplements: Krugman & Obstfeld, Ch. 16
<b>Sunday 17 Dey &amp; Monday 18 Dey</b>	Long-Run Economic Performance and Short-Run Adjustments	Understanding the factors that drive aggregate output in the long run. How expectations about the future of the economy are formed. The role of expectations, contracting, and economic shocks in output and price adjustment in the short-run.	<b>Submit Problem Set 4</b> Background Notes 7 Recommended Supplements: Mankiw, Chs. 7, 8, & 13
<b>Tuesday 19 Dey &amp; Wednesday 20 Dey</b>	Macroeconomic Policies and Institutions	Understanding the characteristics of desirable macroeconomic policies. The debate on active vs. passive macroeconomic policies. The role of monetary and budget institutions in macroeconomic policy and performance.	<b>Submit Problem Set 5</b> Background Notes 8 Recommended Supplements: Mankiw, Chs. 14 & 15
<b>Saturday 23 Dey</b>	<b>Submit Problem Set 6</b> <i>Final Exam (Based on the material covered since midterm exam)</i>		

## Selected Readings and References for Each Topic

### ***Key Macroeconomic Indicators and Their Measurement***

*The Economist*, "[Measuring economies: The trouble with GDP](#)," April 30, 2016.

### ***GDP Components and Twin Deficits***

*The Economist*. (2017). "[The German problem: Why Germany's current-account surplus is bad for the world economy](#)," July 8.

*The Economist*. (2017). "[Vorsprung durch Angst: The good and bad in Germany's economic model are strongly linked](#)," July 8.

Kim, Soyoung. (2015). "[Country characteristics and the effects of government consumption shocks on the current account and real exchange rate](#)," *Journal of International Economics*, 97(2): 436-447.

Kim, Soyoung, and Kuntae Lim. (2016). "[Effects of monetary policy shocks on exchange rate in emerging countries](#)," HKIMR Working Paper No.19/2016, Hong Kong Institute for Monetary Research.

### ***The Foreign Exchange Market***

*The Economist*, "[Measuring economies: The trouble with GDP](#)," April 30<sup>th</sup>, 2016.

Engel, Charles. (2014). "Exchange Rates and Interest Parity," *Handbook of International Economics*, Volume 4, Elsevier: Chapter 8.

Du, Wenxin, Alexander Tepper, and Adrien Verdelhan. (2017). "[Deviations from Covered Interest Rate Parity](#)," NBER Working Paper No. 23170.

### ***Money, Interest Rate, and the Exchange Rate***

Lucas, Robert E. Jr., and Juan Pablo Nicolini. (2015). "[On the stability of money demand](#)," *Journal of Monetary Economics*, 73, July, Pages 48-65

Dreger, Christian, Dieter Gerdesmeier, and Barbara Roffia. "[Re-vitalizing Money Demand in the Euro Area: Still Valid at the Zero Lower Bound](#)," DIW Discussion Papers, No. 1606.

Brunnermeier, Markus K., and Yuliy Sannikov. (2016). "[The I Theory of Money](#)," NBER Working Paper No. 22533.

### ***Aggregate Expenditure and GDP in the Short Run When Prices Are "Sticky"***

Attanasio, Orazio P. (1999). "Consumption," *Handbook of Macroeconomics*, Volume 1A, Elsevier: Chapter 11.

Caballero, Ricardo J. (1999). "Aggregate Investment," *Handbook of Macroeconomics*, Volume 1A, Elsevier: Chapter 12.

Ilzetzki, Ethan, Enrique G. Mendoza, and Carlos A. Végh. (2013). "[How big \(small?\) are fiscal multipliers?](#)" *Journal of Monetary Economics*, 60(2): 239-254.

Taylor, John B. (2016). "The Staying Power of Staggered Wage and Price Setting Models in Macroeconomics," [\*Handbook of Macroeconomics\*](#), Volume 2B, Elsevier: Chapter 25.

### ***Expectations and the Long Run Exchange Rate***

Burstein, Ariel, and Gita Gopinath. (2014). International Prices and Exchange Rates," [\*Handbook of International Economics\*](#), Volume 4, Elsevier: Chapter 7.

Ricci, Luca Antonio, Gian Maria Milesi-Ferretti, and Jaewoo Lee. (2013). "[Real Exchange Rates and Fundamentals: A Cross-Country Perspective](#)," *Journal of Money, Credit and Banking*, 45(5): 845-865.

### ***Long-Run Economic Performance and Short-Run Adjustments***

Charles I. Jones. (2016). "The Facts of Economic Growth," [\*Handbook of Macroeconomics\*](#), Volume 2B, Elsevier: Chapter 1.

Algan, Yann, and Pierre Cahuc. (2014). "Trust, Growth, and Well-Being: New Evidence and Policy Implications," [\*Handbook of Economic Growth\*](#), Volume 2B, Elsevier: Chapter 2.

Doepke, Matthias, and Fabrizio Zilibotti. (2014). "Culture, Entrepreneurship, and Growth," [\*Handbook of Economic Growth\*](#), Volume 2B, Elsevier: Chapter 1.

Yao, Yang. (2014). "The Chinese Growth Miracle," [\*Handbook of Economic Growth\*](#), Volume 2B, Elsevier: Chapter 7.

Christiano, Lawrence J., Martin S. Eichenbaum, and Mathias Trabandt. (2017). "[On DSGE Models](#)," Manuscript, Northwestern University.

Fernández-Villaverde, J., J.F. Rubio-Ramírez, F. Schorfheide. (2016). "Solution and Estimation Methods for DSGE Models," [\*Handbook of Macroeconomics\*](#), Volume 2B, Elsevier: Chapter 33.

Prescott, Edward C. (2016). "RBC Methodology and the Development of Aggregate Economic Theory," [\*Handbook of Macroeconomics\*](#), Volume 2B, Elsevier: Chapter 22.

### ***Macroeconomic Policies and Institutions***

Taylor, John B., and John C. Williams. (2010). "Simple and Robust Rules for Monetary Policy," [\*Handbook of Monetary Economics\*](#), Volume 3, Elsevier: Chapter 15.

Woodford, Michael. (2010). "Optimal Monetary Stabilization Policy," [\*Handbook of Monetary Economics\*](#), Volume 3, Elsevier: Chapter 14.

D'Erasmus, P., E.G. Mendoza, and J. Zhang. (2016). "What is a Sustainable Public Debt?" [\*Handbook of Macroeconomics\*](#), Volume 2B, Elsevier: Chapter 32.

Alesina, Alberto, and Andrea Passalacqua. (2016). "The political economy of government," [\*Handbook of Macroeconomics\*](#), Volume 2B, Elsevier: Chapter 33.