

Syllabus for Econ 201 - Introduction to Macroeconomics

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Office hours: no formal times - instead I'll build opportunities for students to ask questions into the class times.

We will meet three times a week: Tuesdays, Wednesdays and Thursdays, from 9-11.15am in Kellogg Classroom 1410. First meeting is Tuesday June 18th, last meeting is Thursday July 18th.

1 Course Overview

This is an introductory course in economics with an emphasis on macroeconomics. The first, more 'microeconomic' third of the course will cover general topics such as scarcity, choice, how the market system works and the effects of government intervention. This will take us up to the first midterm. We'll then turn to long-run macroeconomics and consider such things as economic growth, unemployment and perhaps the significance of the US current account deficit. This should take us through to the second midterm. We'll then look at money and inflation. We'll finish with short-run macroeconomics, with a focus on the role of monetary and fiscal policy in stabilising the business cycle. En route, time permitting, we will consider such contemporary issues as the role of economic policy in addressing environmental concerns and the recent credit crunch in the US.

The only prerequisite for the course aside from an interest in the subject is high-school algebra. There will be some equations. There will also be lots of diagrams containing such things as supply and demand curves; you will be expected to (learn how to) interpret and manipulate such diagrams yourselves.

2 Evaluation

- Two midterms in class on Thursday June 27th and Wednesday July 10th. (30% each)
- Final exam in class on Thursday July 18th. (40%)

Note that the final exam will focus on the final third of the course, but will also touch on the first two thirds. That's why it's worth 40%.

3 Sections

There are no separate discussion sections with a TA. I'll post (under Modules) section questions and answers; we will go through some or all of these during class time.

4 Course materials

The textbook will be '*Modern Principles: Macroeconomics*' [2nd edition, 2012] by Tyler Cowen and Alex Tabarrok. I recommend that you buy this book if you buy any book.¹ Note that there are 3rd, 4th and 5th editions available, but I'm using the 2nd edition. This is because textbooks are very expensive, and there are more likely to be used copies of the 2nd edition floating around. If you see a used copy of another edition for a good price, that should work fine, but you'll be responsible for finding the right chapters to read.

There will be slides for each topic posted on Canvas. These will be projected in class. There will be three versions of the slides available on Canvas: one identical to that I use in class; one in 'handout' form that omits the 'dynamic overlays' but otherwise resembles the version used in class; and one in 'article' form that's even more compact. **These slides will constitute the core material for this course.** The exams will be based on their contents and on class discussion. The textbook readings are there to supplement the slides. For some topics there might be no appropriate textbook reading, and the slides may be your only resource. I may add readings from outside the textbook as we go along.

5 Lecture topics

The plan is to tackle the following topics in order. There is a spreadsheet on Blackboard with the provisional timetable for the course. If it seems we are falling behind schedule, my preference is to drop material from the syllabus rather than speed up. I will alert you as soon as this looks likely.

CT refers to the textbook.

Microeconomics

[1] Key concepts

How economists think (that people think). Tradeoffs and opportunity costs. Production possibility frontiers, specialisation and the wonders of trade.

CT ch 1 (skim), ch 2. *Notes on reading: just skim the '10 Big Ideas' in chapter 1, as I won't be paying much attention to half of them at this stage. Chapter 2 is important; if you have the 1st edition the same material is tucked away in the first half of Chapter 18, pp.381-387.*

[2] Markets and welfare

¹I think it's possible to do the class without the textbook, but only if you find my slides self-explanatory.

Supply curves. Demand curves. Equilibrium prices and quantities. Consumer and producer surplus. Efficiency.

CT ch 2, ch 3. *Notes on reading: none right now.*

[3] Government intervention

Price controls, quantity controls and taxation. Inefficiency, deadweight loss and elasticity. Externalities and the environment.

CT ch 4. *Notes on reading: the textbook is not good for the externalities/environment material; slides will be best resource here.*

The Macroeconomy in the Long Run

[4] National income accounting

Measurement. The circular flow: income equals output equals expenditure. Price indices.

CT ch 6. *Notes on reading: chapter 6 only covers the first half of this set of slides, i.e. the 'Income, expenditure and production' section. The textbook does have material on measuring inflation and CPI vs GDP deflator (see pp. 252-3, not much detail) and also on real vs nominal interest rates (see pp. 262-3)*

[5] Growth, investment and finance

The importance of economic growth. How the financial system allocates savings to investment projects. Some basic finance. Growth, the environment and intergenerational equity (time permitting).

CT ch 7, ch 8, ch 9 (pp 175-184). *Notes on reading: these readings more or less match my slides, but with slight differences of emphasis and also in a different order; for example I will cover the Solow model (which is in ch 8) after I talk about savings and investment (which is in ch 7). If we have time I'll also cover some material on the environment, but alas for this CT is not so good. It only covers 'present values' (which we'll need to discuss intergenerational equity) in the bond pricing appendix to ch 9, and I don't really want to talk about bond pricing. I think you're better off looking at the slides. I'll provide further readings on the environment if need be.*

[6] Unemployment

Frictional unemployment, structural unemployment. Unions, efficiency wages, hysteresis.

CT ch 11. *Notes on reading: as usual the slides deviate a little in terms of info and presentation, but I follow the book fairly closely. The main exception: I won't talk about determinants of the labor force, so you can skip the section on Labor Force Participation (pp.240-5). Also note that I don't talk about firing costs on the slides, but the topic does turn up in the discussion section.*

[7] Money and inflation

What is money? The quantity equation and the classical dichotomy. Expectations, money velocity and hyperinflation.

CT ch 12. *Notes on reading: as usual the slides deviate a little in terms of info and presentation, but the book is decent. One section I don't really follow is the bit on wealth redistribution, pp.262-4; skim it but no more. I also talk more about (i) the role and evolution of money, and (ii) the mechanics of hyperinflation.*

The Macroeconomy in the Short Run

[8] Short-run fluctuations and policy

Short-run aggregate supply and aggregate demand. The role for government policy, fiscal and monetary.

*Notes on reading: the textbook is **not** useful for this topic. They approach things using a rather unusual framework for an intro macro class, one that I do like but that would only make sense to use if we had much more time. I will be **much** more concise than either book, and in fact will present things very differently. I've tried to make the slides as self-explanatory as possible here.*

[9] Monetary policy and the credit crunch

How the Fed actually 'controls' the money supply. How did we get from subprime mortgage defaults to the financial crisis?

CT ch 15. *Notes on reading: book is pretty good here. The appendix to this chapter covers the deposit creation process in some detail, as I do on the slides (but with pictures). Note that the book mentions a recent Fed policy innovation that I do not plan to cover, namely the payment of interest on reserves.*

6 Comments, policies

- The midterm and final dates/times are not negotiable. There will be no early finals to accommodate family holidays, unfortunately-timed job interviews, internships, etc.
- Will I be grading on a curve? It depends what you mean by that. In general I do not have any preconceived idea of some particular grade distribution I want to see.
- Further to the grading: don't panic if you see you got a 70 on a test and think you failed. Check the letter-grade/number-grade correspondence, which may differ from that you are accustomed to.
- If you don't understand something as we're going through it, that's fine. Just be sure to see me very quickly to sort things out. The nature of the course means that falling behind is a very bad thing indeed.
- There will be no *ex post* reweighting of the relative contributions of assignments and exams to the final grade. Please don't ask, as I find saying no painful, though not painful enough never to say it.
- Should you miss an exam for *whatever* reason and I allow you to do a makeup exam (not guaranteed), then the score on the makeup exam will be capped at the average of the other exams. [For example, suppose your average for Exams A and B is 75%; if you do a makeup for Exam C and score 80%, then I will give you 75% for Exam C; if your makeup score for Exam C is 70%, then I will give you 70% for Exam C.]
- Please ask questions in class if something is not clear. I budget plenty of time for questions.