

Macroeconomic Analysis
Economics 506 On Line
Temple University Fall 1998
Charles Swanson

Texts:

- (1) Michael G. Rukstad, Macroeconomic Decision Making in the Real World: Text and Cases
- (2) Notes, Web sheets.

Grading:

Homeworks (5) 40%
Midterm: 25%
Final: 35%
Paper (optional): 30%

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The course grade depends heavily on submitted answers to questions that pertain to material in the book and on the Web pages. Since Web courses are relatively new, and the means of learning over the wires has not yet stood the test of time or ironed out the kinks, patience on all sides will be needed. In this course, student time, effort, and conscience answers to question sheets will be valued highly in the grading. By November 1, each student will be informed of what needs to be done and by when for each grade objective.

Course objectives: This course is intended for two main groups. Group 1 consists of students who will continue working toward a Ph.D. in economics and will take the Ph.D. sequence 606-607. Group 2 consists of those students who intend to never take another economics course. The subject matter for both groups is, I believe, very similar: we seek a rough overview of what macroeconomist currently know and believe and how they are proceeding to improve upon that base. The course will review the main results and policy implications of the three main paradigms of macroeconomics: Keynes's demand management theory, Friedman's monetary management hypotheses, and the modern growth model with its emphasis on the role of technology and the production function. These paradigms, which are sometimes viewed as gospel truth by their advocates, are often treated as suggestions and as objects of preliminary discussion in advanced research. Going through these paradigms therefore serves to review most of macroeconomics as it is taught at the undergraduate level and to motivate the technical work that researchers engage in. The course will also (1) to introduce some technical models, (2) see what these models imply about economic behavior, and (3) see how some of these ideas can be checked against the data.

Course content: Macroeconomics is about business cycles (booms and recessions), economic growth inflation, interest rates, exchange rates, investment, unemployment, trade flows, debt levels and asset prices. Macroeconomics is about how these variables

are determined, and what policy actions, if any, can be used to make them operate favorably. In effect, macroeconomics is directed at the question of what the federal and state governments can do to bring greater material prosperity to all U.S. citizens. “Greater material prosperity” may involve more goods or it may involve less onerous work to acquire the same number of goods. Making people better off is the ultimate aim, but it is easy to lose sight of this fact as we delve into the specific topics and theories.

The hierarchy of our approach has four levels:

Level 1: Defining the ultimate goal of macroeconomics. (This definition consists of various improvements on: “Making people as materially well off as possible.”)

Level 2: Defining the main objects of macroeconomics. (These include terms like “inflation,” “investment,” “national output,” and so on.)

Level 3: General connections between the objects—how they are related to each other. The connections are contained in various “paradigms” and “models.” The main paradigms are the Keynesian, the Monetarist and the Growth Model. A paradigm is a set of statements about what variables are important and the included variables are related to each other. A paradigm has to be internally consistent, but different paradigms are not always consistent with each other, although they usually are in most (but not all) respects. When they are inconsistent, at least one of them must be wrong. Most macroeconomists spend their time exploring one of the paradigms, refining it, and searching for its predictions, real world relevance and policy predictions.

Level 4: Exploring the connections between the models/paradigms and the real world. The real world is captured two ways: (1) by case studies and (2) by statistical properties. For example, the “Keynesian” paradigm was criticized (asserted to be in need of revision or expulsion) in the mid-1970’s because it high inflation and high unemployment occurred simultaneously. The mid-1970’s was a case study against the basic Keynesian paradigm. On the other hand, the time series on real wages for years between 1948 and 1992 shows very little variation. This is a statistical (or econometric) argument against the basic growth model.

Returning to the goals of the course, the group 1 students should be seeking how models are compared with facts and data and how the model are refined and revised. Group 2 students should be seeking what we currently know, and what the practical limits to this knowledge are.

The textbook: The Rukstad textbook has several cases as well as the outlines of the Keynesian and Monetarists paradigms. We will need notes for the growth model. We will go through many of the cases in the Rukstad book as well as some current issues, such as the currency devaluations in Asia and the problems in Japan and Russia. The cases in the Rukstad book include the Great Depression of the 1930’s, the U.S. and British attempts to

maintain a gold standard, the attempts to form a European Monetary Union, and other international financial institutions and the policies of Thatcher, Reagan, and Paul Volker.

RATS: (Regression Analysis of Time Series) RATS is an econometrics program that allows us to compute various statistics that can be used to test our theories and paradigms. The background and equipment of the students will determine the extent to which we use this medium.

The exams:

Prior to each exam, a set of questions and topics will be given. This list will be the best answer to questions of the sort: will this be on the exam? The test format will be half short written answer and half multiple choice. The multiple choice questions will sometimes be very difficult and require putting several different arguments together. Give these questions time.