

Intermediate Macroeconomic Theory (Spring 2005)

Basic Information

Instructor	Makoto Nakajima
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Course web site	https://netfiles.uiuc.edu/makoto/www/200501econ303/index.html
Office hours	Wednesdays 15:30-17:30 or by appointment (email me)
Class	Mondays & Wednesdays, 14:00-15:20
Classroom	245 Wohlers Hall
TA (for grading)	Hwan-Koo Kang (hwankang@uiuc.edu)

Overview

Macroeconomics studies the relationships between aggregate economic variables, such as output, consumption, investment, savings, employment and inflation. There are two goals for the class: (1) introducing some basic macroeconomic facts, and (2) providing a consistent way of analyzing these facts and evaluating related policy issues. We take a simple version of the so-called classical approach to macroeconomics. This is currently the dominant approach to macroeconomics. The approach seriously considers the decision of economic agents (individuals, firms, government etc...) in a free market economy. Consequently, in analyzing government policies, we must consider how economic agents react to the policies in a free market.

Prerequisites

Modern economics is both qualitative and quantitative. Verbal arguments are supported and are precisely represented by mathematical models and analyses. To survive this class, you should be familiar with basic level of calculus. In particular, you should be able to work with functions and equations with ease, understand the difference between variables and parameters, and find the derivatives of commonly used functions after a brief review. Some ability of handling abstraction is also needed.

In addition, from time to time, we will use some statistical concept. I take as given that, at least, you know what mean, variance, and covariance mean.

Textbook and Readings

Our main textbook is *Macroeconomics* by Stephen Williamson, published from Addison Wesley.

In addition, class notes (mostly written by Professor Rui Zhao) will be made available through the class web page. Occasionally, I might distribute additional readings which

might be of your interest.

Grades

The final grades use plus/minus grading system. All grades are posted using campus grade-book. Course grades are based on homework (25%), two midterms (25% each), and the final exam (25%).

You have **11 problem sets** in total. Out of the 11, **the best 9 are counted in your final grade**. Homework is distributed every Wednesday (on-line) and is due next Wednesday at 17:30. That means you have one week for each homework. The homework is posted on the course web site. You can also find the deadline of each homework on the course web page. **No late homework is accepted.**

Three exams are non-accumulative. However, naturally, later materials draw heavily on what you learn in the earlier classes.

There is **no make-up exam**. If you miss one of the exams for a legitimate reason, you can submit a 5-page essay on a topic related to the materials covered in the exam to compensate for the points of the missed exam. That will make up to 50% of the weight of the missed exam. The rest of the weight will be redistributed proportionally to all the other items that determines your final grade.

All regrading requests must be handed in no later than two weeks after the exam is returned to you.

Any types of cheating, including copying homework from others, is strictly prohibited.

Exam dates

Midterm I	February 21 (Monday) in class
Midterm II	April 4 (Monday) in class
Final	May 12 (Thursday) 13:30-16:30 (room TBD)

Course outline**I. Introduction**

Jan 19 (Wed)	Lecture 0	Ch.1	Introduction
Jan 24 (Mon)	Lecture 1	Ch.2	Aggregate variables

II. Economic Growth

Jan 26 (Wed)	Lecture 2	Ch.6,7	Growth facts
Jan 31 (Mon)	Lecture 3	Ch.4	Model basics and Firm's decision
Feb 2 (Wed)	Lecture 4	Ch.6	Solow growth model I
Feb 7 (Mon)	Lecture 5	Ch.6	Solow growth model II
Feb 9 (Wed)	Lecture 6	Ch.6	Solow growth model III
Feb 14 (Mon)	Lecture 7	Ch.7	Empirical evaluation of Solow growth models
Feb 16 (Wed)	Review		
Feb 21 (Mon)	Midterm I		

III. Household decision, Equilibrium, and Fiscal Policy

Feb 23 (Wed)	Lecture 8	Ch.4	Household's decision: consumption and leisure
Feb 28 (Mon)	Lecture 9	Ch.4	Income and substitution effect
Mar 2 (Wed)	Lecture 10	Ch.5	Equilibrium of one-period model
Mar 7 (Mon)	Lecture 11	Ch.8	Household's decision: consumption and savings
Mar 9 (Wed)	Lecture 12	Ch.8	Why households save?
Mar 14 (Mon)	Lecture 13	Ch.5,8	Fiscal Policy I: Government Expenditure
Mar 16 (Wed)	Lecture 14	Ch.5,8	Fiscal Policy II: Tax
Mar 28 (Mon)	Lecture 15	Ch.5,8	Fiscal Policy III: Government Debt
Mar 30 (Wed)	Review		
Apr 4 (Mon)	Midterm II		

IV. Business Cycles, Money, and Banking

Apr 6 (Wed)	Lecture 16	Ch.3	Business cycle facts
Apr 11 (Mon)	Lecture 17	Ch.10	Monetary model
Apr 13 (Wed)	Lecture 18	Ch.11	Money surprise model
Apr 18 (Mon)	Lecture 19	Ch.11	Real Business Cycle model
Apr 20 (Wed)	Lecture 20	Ch.12	Keynesian IS-LM model
Apr 25 (Mon)	Lecture 21	Ch.16	Unemployment
Apr 27 (Wed)	Lecture 22	Ch.15	Monetary Policy
May 2 (Mon)	Lecture 23	Ch.15	Banking
May 4 (Wed)	Review		
May 12 (Thu)	Final exam		