

Intermediate Macroeconomic Theory (Spring 2006)

Basic Information

Instructor	Makoto Nakajima
Office	452 Wohlers Hall
Email	makoto@uiuc.edu
Course web site	http://www.compmacro.com/makoto/200601econ303/index.html
Office hours	Tuesdays 11:00-13:00 or by appointment (email me)
Class	[Section 1] Mondays & Wednesdays, 14:00-15:20 [Section 2] Mondays & Wednesdays, 9:30-10:50
Classroom	[Section 1 & 2] 24 Wohlers Hall
TA (for grading)	Byung Kwun Ahn (bkahn@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 neoclassical approach to macroeconomics. This is currently the dominant approach to macroeconomics. The approach seriously considers the decision of economic agents (households, 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 (2nd edition), published from Addison Wesley. We will not necessarily follow the order of materials in the textbook, but I will try to present materials in way consistent with the textbook. I will make sure that you know which part of the textbook we are covering in each class.

In addition, class notes (originally written by my fellow Professor Rui Zhao) will be made available through the class web page as necessary. Occasionally, I might introduce additional readings which might help you deepening your understanding on the materials.

Exams

There are **three in-class midterms and no final exam**. Three exams are non-accumulative. However, naturally, later materials draw on what you learn in the earlier classes. Exam dates are below:

Midterm I	February 20 (Monday)
Midterm II	March 29 (Wednesday)
Midterm III	May 3 (Wednesday)

All regrading requests must be submitted in no later than two weeks after the exam is returned to you. If you request regrading, please write down the reason for requesting regrading on a sheet of paper and submit to me together with your exam.

Problem Sets

There are **six problem sets** in total. Out of the six, the best five are counted in your final grade. Problem sets are distributed on-line through the course web site and are due at the end of the class on the deadline date. No late homework is accepted.

Grades

The final grades use plus/minus grading system (A^+ A A^- B^+ B B^- C^+ C C^- D D^- F). Final grades are based on the problem sets (the best five carry 5% each, totaling 25%) and three midterms (25% each). There is no curve.

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 determine your final grade.

Miscellaneous

All grades are posted on the *Illinois Compass* system (<http://compass.uiuc.edu>).

All the exams and (potentially) problem sets are different for different sections. Please take the exam of the section that you are in.

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

Course outline**I. Introduction**

Jan 18 (Wed) Lecture 0 Ch.1 Introduction

II. Economic Growth

Jan 23 (Mon) Lecture 1 Ch.2,6 Measurement, and Growth facts

Jan 25 (Wed) Lecture 2 Ch.6 Growth Accounting

Jan 30 (Mon) Lecture 3 Ch.6 Solow growth model

Feb 1 (Wed) Lecture 4 Ch.6 Solow growth model

Feb 6 (Mon) Lecture 5 Ch.6 Solow growth model

Feb 8 (Wed) Lecture 6 Ch.7 Endogenous growth model

Feb 13 (Mon) Lecture 7 Ch.7 Endogenous growth model

Feb 15 (Wed) Review

Feb 20 (Mon) Midterm I

III. Fiscal Policy

Feb 22 (Wed) Lecture 8 Ch.4 Household's decision: consumption and leisure

Feb 27 (Mon) Lecture 9 Ch.4 Income and substitution effect

Mar 1 (Wed) Lecture 10 Ch.4 Firm's decision

Mar 6 (Mon) Lecture 11 Ch.5 Equilibrium analysis

Mar 8 (Wed) Lecture 12 Ch.5 Equilibrium analysis

Mar 13 (Mon) Lecture 13 Ch.8 Household's decision: consumption and savings

Mar 15 (Wed) Lecture 14 Ch.8 Richardian Equivalence and Social Security

Mar 27 (Mon) Review

Mar 29 (Wed) Midterm II

IV. Business Cycles, and Monetary Policy

Apr 3 (Mon) Lecture 15 Ch.9 Firm's decision

Apr 5 (Wed) Lecture 16 Ch.9 Equilibrium analysis

Apr 10 (Mon) Lecture 17 Ch.2 Business cycle facts

Apr 12 (Wed) Lecture 18 Ch.11 Real Business Cycle model

Apr 17 (Mon) Lecture 19 Ch.10 Neutrality of Money

Apr 19 (Wed) Lecture 20 Ch.11 Money surprise model

Apr 24 (Mon) Lecture 21 Ch.16 Monetary policy rule

Apr 26 (Wed) Lecture 22 Ch.16 Monetary policy rule

May 1 (Mon) Review

May 3 (Wed) Midterm III