

# Syllabus for Econ 201 - Introduction to Macroeconomics

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We will meet three times a week: Mondays, Wednesdays and Fridays, from 9-9.50pm in Lutkin Hall.

Office hours: Tuesdays from 9-11am in KGH 3493 (i.e. Kellogg Building, 3rd floor). I can also hang around after each class to take questions.

The TAs (Jose Alvarado and Federico Puglisi) will announce their office hours separately.

## 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 and unemployment. 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 issues such as the role of economic policy in addressing environmental concerns and the 2007-8 financial crisis 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 Friday January 31<sup>st</sup> (week 4) and Friday February 21<sup>st</sup> (week 7). (30% each)
- Final exam on Friday March 20<sup>th</sup> (exam week) at 9am. (40%)

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%. [To be precise: of those 40 %age points on the final,  $33\frac{1}{3}$  will be on the final third of the class and  $3\frac{1}{3}$  on each of the first two thirds. That way each third of the class is worth  $33\frac{1}{3}\%$  overall.]

### 3 Sections

There will be no section in week 1.

Students often ask if the sections are mandatory. They are not, at least insofar as you will not be directly penalised for failure to attend. However, the sections will be useful. There will be exercises/discussion questions for each section that I **strongly** advise you consider beforehand. You will get a lot more from the course, and find the midterms and final much easier, if you attend sections.

### 4 External support

There are two external sources of support for the class.

#### 4.1 Peer-Guided Study Group Program (registration and attendance required)

The Peer-Guided Study Group Program offers peer-led academic support in a small-group setting. If you join the program, you will meet weekly with about 5 to 7 other students and a peer facilitator; the latter is typically a student who has already taken Econ 201 and done well. During sessions, students review concepts, work through practice problems, raise questions and work together to develop answers. Students register for the full quarter on CAESAR, and attendance is expected weekly. Study Group sessions are listed below course lecture and discussion sections.<sup>1</sup>

See <https://goo.gl/7hkwV5> for details. Questions to Borislava Miltcheva at [borislava.miltcheva@northwestern.edu](mailto:borislava.miltcheva@northwestern.edu).

#### 4.2 Drop-In Peer Tutoring (no appointment needed)

Drop-In Peer Tutoring allows students to drop in to study alone or with others and ask questions of a peer leader who has done well in the class. Sessions are on weekday evenings and Sunday afternoons, and there are snacks provided:

- *Wednesdays 8-10pm:* Shepard Engagement Center, B25
- *Thursdays 8-10pm:* 560 Lincoln, Room 101
- *Sundays 3-5pm:* Shepard Engagement Center, B25

The above times/dates/locations are correct as of 12/17/19. See <https://goo.gl/4s44zW> for details. Questions to Una McGeough at [una.mcgeough@northwestern.edu](mailto:una.mcgeough@northwestern.edu).

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<sup>1</sup>Scroll down in CAESAR and you should see something like “ECON 201-SG - Peer-Guided Study Group: Introduction to Macroeconomics”.

## 5 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.<sup>2</sup> A 3rd and now 4th edition are available, but I’m sticking with the 2nd as used copies might be easier to find and these textbooks are absurdly expensive. If you want to buy the later editions then that’s fine; you will have to find the appropriate readings yourself (or come and see me and ask).

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: 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 section/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.

### 5.1 blogs

A fine way to learn economics is to read some of the many excellent economist bloggers. The following is a very selective list of some of the most widely read; note that the textbook authors, Cowen and Tabarrok, run the Marginal Revolution blog. None is required reading for the course, and some of the topics will stray a long way from macroeconomics.

Note that a wide range of economic and political viewpoints are implicit in this list, none of which I necessarily endorse. But there are no crazies, or at least not many, most of the time.

[www.marginalrevolution.com](http://www.marginalrevolution.com)  
[gregmankiw.blogspot.com](http://gregmankiw.blogspot.com)  
[www.nytimes.com/column/paul-krugman](http://www.nytimes.com/column/paul-krugman)  
[economistsview.typepad.com](http://economistsview.typepad.com)  
[afinetheorem.wordpress.com](http://afinetheorem.wordpress.com)  
[johnhcochrane.blogspot.com](http://johnhcochrane.blogspot.com)  
[www.economist.com/blogs/freeexchange](http://www.economist.com/blogs/freeexchange)

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<sup>2</sup>I think it’s possible to do the class without the textbook, but only if you find my slides self-explanatory. My guess is that most people should buy, rent or borrow it. Amazon has used copies available: <https://goo.gl/Hr2uu5>.

## 6 Lecture topics

The plan is to tackle the following topics in order. 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

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 hyper-inflations.

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 hyperinflations.*

## 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.*

## 7 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. If you have an internship that clashes with the final, ask the firm with which you're interning if you can take the final on their premises (this is usually possible).
- If you miss an exam for whatever reason (illness, wedding, prison. . . ) then you will have to do a makeup exam, your percentage score on which will be capped at the average of the other two exams. For example, say you missed a midterm and your average on the other two exams ends up being 80%. If you get 70% on the makeup-midterm then you will receive a score of 70% for that midterm. If you get 90% on the makeup-midterm then you will receive a score of 80% for that midterm.
- If you think you were unfairly denied marks on an exam, take the matter up with your TA to see if s/he agrees. If you still think it's unfair then (and only then) bring it to me; I will remark the entire assignment/exam, and reserve the right to deduct points as well as add them.
- Will I be grading on a curve? I'm not sure what that (very common) question means. 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 60 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 or your TA very quickly to sort things out. The nature of the course means that falling behind is a bad thing.
- 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.
- Please ask questions in class if something is not clear. I budget plenty of time for questions.