AMERICAN UNIVERSITY OF BEIRUT

FACULTY OF ARTS & SCIENCES

Economics 327
Macroeconomics

Spring 2023-2024

Staff Contact Details

Lecturer: Nadine Yamout
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Office Hours: Tuesdays and Thursdays 11:30 am - 12:30 pm or by appointment

You should feel free to contact me about any academic matter. I strongly encourage you, for efficiency reasons, that you make any enquiries about the subject material at lectures, during office hours or via the online discussion forum on Moodle. Email correspondence on administrative matters will generally be answered within 24 hours.

Teaching Times and Locations

Tuesdays and Thursdays from 2:00 pm - 3:15 pm, Nicely Hall Room 209

Course Summary

This course offers a comprehensive exploration of fundamental macroeconomic concepts. Throughout the course, core macroeconomic topics such as long-term economic growth, business cycle fluctuations, unemployment, inflation, and optimal stabilization policies will be examined using formal economic models. The initial half of the course will be dedicated to the study of models of long-term economic growth and real business cycles. These models are characterized by their frictionless nature, meaning they do not inherently incorporate the impact of macroeconomic policies. Nevertheless, they serve as vital theoretical benchmarks upon which subsequent knowledge will be built. In the latter half of the course, the focus will shift to the analysis of various economic frictions. Topics covered will include nominal rigidities resulting in monetary non-neutralities, labor market frictions leading to unemployment, and financial market frictions that both amplify external shocks and generate internal sources of volatility.

Course Learning Outcomes

The course learning outcomes are what you will be able to do by the end of this course if you participate fully in learning activities and successfully complete the assessment items. Upon the successful completion of this course, you will be able to:

1. demonstrate knowledge of and ability to use the main models in macroeconomics for understanding long-run growth, business cycles, consumption, investment, and unemployment;

2. analyse dynamic macroeconomic models for their strengths and weaknesses, as well as how they relate to each other;

3. apply models to examine ongoing changes in the world economy and to evaluate and think critically about policy initiatives designed to address macroeconomic challenges in society;

4. analyse monetary and fiscal policy decisions based on models and empirical evidence;

5. demonstrate ability to read and reflect upon academic papers to keep abreast of recent developments in macroeconomic literature.

Learning and Teaching Approach

The examinable content of the course is defined by the references given in the course schedule and the content of lectures and tutorials.

Lectures:
Our textbook is *Advanced Macroeconomics*, by David Romer. We shall cover one or two topics each week (see details below), and complement the material with some examples and applications in class. You are expected to read the relevant sections of the textbook before the lecture.

Tutorial Questions:
Each week I will post some tutorial questions that review and build-on the lecture material. These are available to you for self-study and are intended to provide applications and examples of economic concepts and models introduced in the lectures. I will post the solutions to these tutorial questions a week after. Ideally, you should attempt the tutorial questions before the solutions become available and raise any issues or problems that you might have through the online discussion forum on Moodle.

Out-of-Class Study:
While you may have preferred individual learning strategies, it is important to note that most learning will be achieved outside of class time. Lectures can only provide a structure to assist your study as the lecture time is limited. An "ideal" strategy (on which the provision of the course materials is based) might include:

- reading of the relevant chapter(s) of the textbook before the lecture. This will give you a general idea of the topic area.

- attendance at lectures. Here the context of the topic in the course and the important elements of the topic are identified. The relevance of the topic is also explained.

- organizing study groups to review material and solve tutorial problems.

Assessment Details

Assessment Task	Weight	Length	Due Date
Assignments ($\times 2$)	10%	~ 500 words	Multiple weeks (refer to course schedule)
Research Project	20%	20 minutes	Week 14 (refer to course schedule)
Midterm Exam	30%	75 minutes	Thursday, 7 March 2024
Final Exam	40%	120 minutes	University exam period

Assignments:
There will be two assignment consisting of analytical questions each worth 5% of your final course grade. The first assignment will be due on Tuesday 20 February 2024 while the second assignment is due on Tuesday 2 April 2024. You are encouraged to work in small groups to complete the assignments and to submit the assignment as a group. All members of the group will be given the same mark. No more than two students may submit an assignment as a group. Of course, you may choose not to work in a group and submit an assignment on your own. No two groups may hand in the same assignment. Assignments must be submitted in electronic format by one group member via the Moodle assignment submission tool. You will be required to submit these assignments in electronic form by 11:59 pm on the due date.

Research Project:
There will be one group research project worth 20% of your final course grade. Each group will be required to submit a research report (4000 words) and deliver a 20-minute presentation about a current topic of debate in macroeconomics. All group presentations will take place on week 14 of this course (refer to course schedule). Students will split into groups of 2 members each by the second week of the semester. Each group will choose a research topic in macroeconomics to present to class. Research reports will be due on 22 April 2024 and the in-class presentations will follow.

Midterm Exam:
A 75 minutes midterm exam is scheduled for Thursday 7 March 2024 (Week 7) during class time. The exam is worth 30% of your final course grade and will cover material from Weeks 1-5. Anything covered in the lectures, tutorial questions and assignments is examinable.

Final Exam:
A 120 minutes final exam is scheduled during the university exam period. The exam is worth 40% of your final course grade and will cover material from the whole course, although focusing mostly on material since the midterm exam. Anything covered in the lectures, tutorial questions and assignments is examinable.

Course Resources

The website for this course is on AUB Moodle at: https://lms.aub.edu.lb/

The textbook for this course is *Advanced Macroeconomics*, by David Romer ISBN $978 - 1260185218$. You may use either the 4th or 5th edition. (DR)

The course will also draw on various journal articles and working papers. I will post copies of these articles and all other course material on Moodle.

The Solow Growth Model

- Dimand, R. W., & Spencer, B. J. (2009). Trevor Swan and the Neoclassical Growth Model. History of Political Economy, 41, 107-126.

- Pritchett, Lant. (1997). Divergence, Big Time. Journal of Economic Perspectives 11 (3):3-17.

- Baumol, W. J. (1986). Productivity Growth, Convergence, and Welfare: What the Long-run Data Show. The American Economic Review, 1072-1085.

The Ramsey Model

- Attanasio, O. P., & Ramsey, F. P. (2015). Frank Ramsey's A Mathematical Theory of Saving. The Economic Journal, 125(583), 269-294.

- Duarte, P. G. (2009). The Growing of Ramsey's Growth Model. History of Political Economy, 41, 161-181.

- Barro, R. J., Mankiw, N. G., & Sala-i-Martin, X. (1995). Capital Mobility in Neoclassical Models of Growth. The American Economic Review, 103-115.

Endogenous Growth

- Jones, C. I. (2019). Paul Romer: Ideas, Nonrivalry, and Endogenous Growth. The Scandinavian Journal of Economics, 121(3), 859-883.

- Romer, P. M. (1994). The Origins of Endogenous Growth. Journal of Economic perspectives, 8(1), 3-22.

- Arrow, K. J. (1962). The Economic Implications of Learning by Doing. Review of Economic Studies, 29 (June), 155 173.

The Romer Model

- Pack, H. (1994). Endogenous Growth Theory: Intellectual Appeal and Empirical Shortcomings. Journal of economic perspectives, 8(1), 55-72.

- Jones, C. I. (1997). Population and Ideas: A Theory of Endogenous Growth. NBER working paper 6285

- Hall, R. E., & Jones, C. I. (1999). Why Do Some Countries Produce So Much More Output Per Worker Than Others?. The quarterly journal of economics, 114(1), 83-116.

Real Business Cycle Theory

- Eichenbaum, M., & Singleton, K. J. (1986). Do Equilibrium Real Business Cycle Theories Explain Postwar US Business Cycles?. NBER macroeconomics annual, 1, 91-135.

- Gali, J., & Rabanal, P. (2004). Technology Shocks and Aggregate Fluctuations: How Well Does the Real Business Cycle Model Fit Postwar US Data?. NBER macroeconomics annual, 19, 225-288.

- Rebelo, S. (2005). Real Business Cycle Models: Past, Present, and Future. NBER Working Paper 11401

Nominal Rigidity

- Lucas, R. E. (1973). Some International Evidence on Output-Inflation Tradeoffs. The American economic review, 326-334.

- Ball, L., Mankiw, N. G., Romer, D. (1988). The New Keynesian Economics and the Output-Inflation Trade-off. Brookings papers on economic activity, 1988(1), 1-82.

- Ball, L., & Romer, D. (1990). Real Rigidities and the Non-Neutrality of Money. The Review of Economic Studies, 57(2), 183-203.

New-Keynesian DSGE Model

- DeLong, J. B. (1997). America's Peacetime Inflation: The 1970s. NBER Chapters, 247-280.

- Smets, F., & Wouters, R. (2007). Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach. American economic review, 97(3), 586-606.

- Gertler, M., & Karadi, P. (2011). A Model of Unconventional Monetary Policy. Journal of monetary Economics, 58(1), 17-34.

Monetary Policy

- Yellen, J. L., & Akerlof, G. A. (2006). Stabilization Policy: A Reconsideration . Economic Inquiry, 44(1), 1-22.

- Clarida, R., Gali, J., & Gertler, M. (2000). Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory. The Quarterly Journal of Economics, 115(1), 147-180.

Time Inconsistency and Fiscal Policy

- Fischer, S. (1990). Rules versus Discretion in Monetary Policy. Handbook of monetary economics, 2, 1155-1184.

- Rogoff, K. (1992). Can International Monetary Policy Cooperation be Counterproductive?. In International Economic Policies and their Theoretical Foundations (pp. 874-892). Academic Press.

- Bernheim, B. D. (1987). Ricardian Equivalence: An Evaluation of Theory and Evidence. NBER macroeconomics annual, 2, 263-304.

Consumption Behavior

- Hall, R. E. (1978). Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence. Journal of political economy, 86(6), 971-987.

- Campbell, J. Y. (1987). Does Saving Anticipate Declining Labor Income? An Alternative Test of the Permanent Income Hypothesis. Econometrica, 55(6), 1249-1273.

- Carroll, C. D. (1997). Buffer-Stock Saving and the Life Cycle/Permanent Income Hypothesis. The Quarterly journal of economics, 112(1), 1-55.

Investment and Financial Markets

- Bernanke, B. S., Gertler, M., & Gilchrist, S. (1999). The Financial Accelerator in a Quantitative Business Cycle Framework. Handbook of macroeconomics, 1, 1341-1393.

- Fazzari, S., Hubbard, R. G., & Petersen, B. C. (1987). Financing Constraints and Corporate Investment. NBER Woking Paper 2387

Unemployment and Labor Markets

- Yellen, J. L. (1984). Efficiency Wage Models of Unemployment. The American Economic Review, 74(2), 200-205.

- Yashiv, E. (2007). Labor Search and Matching in Macroeconomics. European Economic Review, 51(8), 1859-1895.

Course Policies

Attendance Policy:
Attendance is expected for all lectures and absences should be kept to a minimum. You are highly encouraged to attend the lectures and participate in discussions in class.

Makeup Policy:
If you experience short-term circumstances beyond your control, such as illness, injury or misadventure which do not enable you to sit for the exams please let me know. You would need to present a valid medical excuse from AUBMC or the AUB infirmary. Any other excuse is NOT valid. If no valid excuse is presented, you will receive a grade of zero on the missed exam.

Note that there will be no makeup midterm exam. If you miss the midterm exam AND have a valid excuse, the final course grade will be based on your grades in the assignments, quizzes and final exam.

Academic Integrity Policy:
AUB regulations regarding cheating and plagiarism will be fully enforced. You are expected to be familiar with AUB's policies on cheating and plagiarism as specified in the Student Code of Conduct. If a student cheats according to the cheating criteria set by AUB, the name of the student will be given to the Disciplinary Committee for action.

Accessibility Policy:
AUB strives to make learning experiences as accessible as possible. If you anticipate or experience academic barriers due to a disability (including mental health, chronic or temporary medical conditions), please inform me immediately so that we can privately discuss options. In order to help establish reasonable accommodations and facilitate a smooth accommodations process, you are encouraged to contact the Accessible Education Office: accessibility@aub.edu.lb; +961-1-350000, x3246; West Hall, 314.

Policy on Personal Computers/Tablet:
You are welcome to bring your own laptop or tablet to class. The use of such devices should be restricted to taking notes and to course-related activities.

Course Schedule

Week	Date	Topic	Readings	Assessments	Tutorials
0	Tues. 16/01/2024				
	Thurs. 18/01/2024	Introduction to the Course			
1	Tues. 23/01/2024	The Solow Growth Model	DR, Ch. 1		T1 Qs posted
	Thurs. 25/01/2024				
2	Tues. 30/01/2024	The Ramsey Model	DR, Ch. $2.1 - 2.7$		T1 As posted, T2 Qs posted
	Thurs. 01/02/2024				
3	Tues. 06/02/2024	Endogenous Growth	DR, Ch. $3.1 - 3.4$	Assignment 1 posted	T2 As posted, T3 Qs posted
	Thurs. 08/02/2024				
4	Tues. 13/02/2024	The Romer Model, Growth Empirics	DR, Ch. $3.5 - 3.7$		T3 As posted, T4 Qs posted
	Thurs. 15/02/2024		DR, Ch. 4		
5	Tues. 20/02/2024	Real Business Cycle Theory	DR, Ch. 5	Assignment 1 due	T4 As posted, T5 Qs posted
	Thurs. 22/02/2024				
6	Tues. 27/02/2024	Nominal Rigidity	DR, Ch. $6.5 - 6.10$		T5 As posted, T6 Qs posted
	Thurs. 29/02/2024				
7	Tues. 05/03/2024	Revision and Q&A for Midterm Exam			
	Thurs. 07/03/2024	Midterm Exam		75 minutes exam	
8	Tues. 12/03/2024	New-Keynesian DSGE Model	DR, Ch. 7		T6 As posted, T8 Qs posted
	Thurs. 14/03/2024				
9	Tues. 19/03/2024	Monetary Policy	DR, Ch. $12.1 - 12.6$	Assignment 2 posted	T8 As posted, T9 Qs posted
	Thurs. 21/03/2024				
10	Tues. 26/03/2024	Time Inconsistency, Fiscal Policy	DR, Ch. $12.8 - 12.9$		T9 As posted, T10 Qs posted
	Thurs. 28/03/2024		DR, Ch. $13.1 - 13.2$		

Week	Date	Topic	Readings	Assessments	Tutorials
11	Tues. 02/04/2024	Consumption Behavior	DR, Ch. 8	Assignment 2 due	T10 As posted, T11 Qs posted
	Thurs. 04/04/2024				
12	Tues. 09/04/20224	Investment and Financial Markets	DR, Ch. $9.1 - 9.6$		T11 As posted, T12 Qs posted
	Thurs. 11/04/2024				
13	Tues. 16/04/2024	Unemployment and Labor Markets	DR, Ch. 11.4-11.5		T12 As posted, T13 Qs posted
	Thurs. 18/04/2024				
14	Tues. 23/04/2024	Group Presentations		In-class presentations	T13 As posted
	Thurs. 25/04/2024			In-class presentations	
Reading Period	29/04/2024 - 06/05/2024				
Exam Period	07/05/2024 - 18/05/2024	Final exam		120 minutes exam	