

Syllabus

Courses: ECO-223 and ECO-224 MACROECONOMIC THEORY I and II

Instructor: Dr. Lutfi Erden

Class Hours: 15:10-17:00 Wed (SPRING' 2004)

15:10-17:00 Th

Office Hours: 10:00-12:00 Tue

Textbooks (Recommended) 1) Macroeconomics: Theories and Policies by Froyen

2) Macroeconomics by Dornbusch, Fischer and Startz

3) Macroeconomics by Mankiw

FALL SEMESTER (ECO-223)

I- What is Macroeconomics?

- Basic concepts and concerns of macroeconomics

II- National income accounting

- Different ways to measuring economic performance (Value added, income and expenditure)
- Circular Flow Diagram
- Accounting Identities
- Price Indices
- Definitions of GDP, GNP, NI, Personal income

III- Economy in the long run (Classical Model)

- Output and employment determination
- The roles of flexible wages and prices assumptions
- Deriving the long run AS curve (Definitions of full employment and potential output)
- The Quantity theory of money (Monetary neutrality)
- Deriving the AD curve
- The stabilizing role of interest rate
- Policy implications of the Classical Model

IV- Economy in the short run (Keynesian Model)

- Understanding the business cycles in the short run
- Realized (actual) and Planned (desired) expenditures (Keynesian Cross)
- Autonomous expenditure multipliers
- Deriving the IS curve
- Keynesian theory of money demand (Liquidity Preference Theory)
- Deriving the LM curve
- A modern interpretation of the Keynesian System (The IS-LM Model)
- National income determination
- Analyzing the effects of monetary and fiscal policies (Liquidity trap; Crowding-out)
- Policy mix
- Relative effectiveness of monetary and fiscal policies
- Deriving the AD curve using the IS-LM model
- The short run AS curve (Sticky prices)

- V- The AD-AS Model
- Shocks to the AD and AS curves and their impacts in the Classical and Keynesian models
 - A comparison of the Classical and Keynesian models

SPRING SEMESTER (ECO-224)

- VI- More on the AS behavior
- The slope of the AS curve in the short run and long run
 - Flexible prices and sticky money wages
 - Flexible money wages and sticky prices
- VII- Output, unemployment and inflation
- Okun's Law (principle)
 - Philips Curve
 - Stagflation
- VIII- The role of expectations
- Price adjustment mechanism
 - Perfect and imperfect foresight (a note on the Ricardian equivalence)
 - Adaptive expectations
 - Rational expectations
- IX- Monetarists (Friedman)
- The modern quantity theory of money demand
 - Constant growth rule
 - Fiscal and monetary policies
 - Another monetary transmission mechanism
- X- Macroeconomic Policymaking
- A case study
 - The effects of lags
 - Active policy
 - Rules versus Discretion
 - Time inconsistency
 - Targeting and Credibility
- XI- Open economy macroeconomics
- Balance of Payments
 - Exchange rates
 - Capital mobility
 - Mundell- Fleming Model
- XII- Economy in the very long run (Introduction to growth theories)
- Growth accounting
 - Growth with exogenous technological change
 - Convergence
 - Endogenous growth