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