

Macroeconomic Theory for MDE – Economics 5001
Dalhousie University, Winter 2012

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Time & Location: Monday, Wednesday 9:35–10:55, SR1
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Office Hours: Monday 14:00–16:00, Friday 10:30–11:30
Course Web Page: <http://myweb.dal.ca/tiscan/>

Description and approach taken

This course presents a broad coverage of contemporary issues in open economy macroeconomics. The topics include consumption-savings decisions, economic growth, exchange rate models, and fiscal and monetary policies in open economies. For each topic, lectures will provide an overview of contemporary and historical issues, outline a basic theoretical framework appropriate for the topic, and emphasize the implications of theory for policy—and I will refer the more theoretically inclined students to the original material for more detailed expositions. I have designed the course with a “writing to learn” approach in mind, so you will have ample opportunity to read and synthesize the existing literature, and apply the concepts in novel contexts.

Accessibility

Students may request accommodation due to barriers related to disability, religious obligation, or any characteristic under the Nova Scotia Human Rights Act. Students who require academic accommodation for either classroom participation or the writing of exams should make their request to the Office of Student Accessibility and Accommodation prior to or at the beginning of each academic term. Please see www.studentaccessibility.dal.ca for more information and to obtain Form A - Request for Accommodation.

Academic Integrity

At Dalhousie University, we expect all members of the community to adhere to the values of academic integrity: honesty, trust, fairness, responsibility, and respect. As a student, you must read, understand and follow policies on academic integrity at Dalhousie (<http://academicintegrity.dal.ca/Policies/>) and at the Economics Department (<http://myweb.dal.ca/tiscan/courses/e5001/>).

Concerning the *individual* assignments in this course, while discussion with your fellow students is valuable, do *not* submit an assignment that is identical to an assignment submitted by another individual in terms of logical flow, organization of arguments, and interpretation of data.

Course Material

Lecture notes. I post my lecture notes on the course web page. These complement the discussions in the lectures, and are not substitutes for lectures and required readings

Textbook. Maurice Obstfeld, Kenneth Rogoff, 1996. *Foundations of International Macroeconomics*. MIT Press. (Still the best book on the foundational material on international macroeconomics.)

Supplementary material. Kate Tubarian, 2007. *A Manual for Writers of Research Papers, Theses, and Dissertations*. 7th Edition. University of Chicago Press, Chicago.

Requirements

Background material. Intermediate Macroeconomics – Econ 2201 or equivalent with at least a grade of B–. Knowledge of basic algebra and calculus. You should have an intermediate macroeconomics textbook accessible for reference. I recommend

Olivier Blanchard, David Johnson. *Macroeconomics*. 4th edition. Pearson.

Attendance and independent learning. Attendance to lectures is a requirement. Lectures will include discussion, data and material that are not included in your textbook and assigned readings. At the same time, not all required readings from the textbook and assigned readings will be covered in the lectures.

Readings and papers. Research and writing are important components of this course. Most of your writings will examine specific issues using a country of your choice.

Learning and evaluation

Active learning. There is a significant research component to this course. Be prepared for effortful cognitive work at the level of synthesis and evaluation. Paraphrasing the arguments presented in your textbook, readings and lectures will be necessary but not sufficient to obtain a satisfactory mark on your essays. Research in this course emphasizes the process, and is student centered.

Evaluation. You will be evaluated based on your knowledge, comprehension, application, and analysis of the material learned in this course, and synthesis and evaluation of existing research. These include:

1. Application of macroeconomic knowledge to situations that are different from those presented in class, solving novel problems, and hypothesis testing (not necessarily econometrics).
2. Critical thinking: Appraising whether what appears to be evidence for a certain approach is really so; evaluating the quality of an argument; disentangling cause from effect; and identifying the shortcomings and pitfalls of a particular model.
3. Collecting, comparing, and evaluating information and data: This includes searching through library collections, major economics journals, and online databases.
4. Effective written communication: Writing concise essays to explore the issues in detail.

The expected outcome in an essay is a thorough analysis of an assigned topic further narrowed down by the student. It need not be an essay of publishable quality. Over the course of the semester, expected outcomes will progressively become more demanding. At the most advanced stage, an essay should demonstrate that the student is able to identify an issue of economic and policy relevance, place this issue within an appropriate literature, state clearly a specific hypothesis, and assess the validity of this hypothesis by using basic economic reasoning and statistical methods (*analysis* and *synthesis*). All essays should be written in the proper academic style (see below).

Method of evaluation and grading

There will be eight (8) assignments and a final exam exam, which will cover all the material from the lectures, assignments, and required readings. Assignments are posted on the course web page. The assignments account for 85 percent of the final grade and the final exam, scheduled for 9 April (10:00am–12:00pm) accounts for the remaining 15 percent of the grade. I highly recommend reading the material *before* the lectures and actively participating in class discussions.

Grading of assignments. Part of your total mark will be based on the effectiveness of your written communication. Your overall grade will depend on writing style, structure and logic, as well as content (research and analysis). See the attached “A Framework for Letter Grades” for a description of each of these categories.

I will use the following weighting scheme:

$$\text{Overall grade} = 100 - \sqrt{\frac{2}{10}(100 - \text{style})^2 + \frac{4}{10}(100 - \text{logic})^2 + \frac{4}{10}(100 - \text{content})^2}.$$

Final grade. The correspondence between the total grade and the letter grade is:

<u>Grade</u>	<u>Letter</u>	<u>Grade</u>	<u>Letter</u>	<u>Grade</u>	<u>Letter</u>
90–100	A+	77–79	B+	0–69	F
85–89	A	73–76	B		
80–84	A–	70–72	B–		

Writing skills

Effective writing involves following a consistent style and expressing ideas clearly using linear logic. At the end of this syllabus I provide a brief style guideline. Learning to write effectively is also learned skill, Turabian (2007) is a *great* resource: have it handy for all aspects of style and structure. I also highly recommend:

Zinsser, William, 2001. *On Writing Well*. Quill, New York.

The *Dalhousie Writing Centre* offers support to students as they work on their written assignments. The Centre helps students find a tutor who can review and comment on their work, and is located at G40M in the Killam Library's Learning Commons (494-1963, writingcentre@dal.ca, www.writingcentre.dal.ca).

A good way to learn and appreciate effective writing is by reading those who are good at it. For instance, the *Journal of Economic Perspectives* publishes general interest articles for non-specialists (though primarily on U.S. economy) that are carefully copy edited.

Remember, all effective writers revise their writings relentlessly.

Organization

The lectures are organized around the following topics:

0. Introduction (2 lectures)
1. The short run IS-LM model and policy trilemma (1 lecture)
2. Saving and investment in open economies: the short run (6 lectures)
3. Macroeconomic aspects of international trade (2 lectures)
4. Macroeconomic aspects of international finance (2 lectures)
5. Nominal exchange rates, and currency crises (4 lectures)
6. Monetary and fiscal policy (2 lectures)
7. Economic growth (6 lectures)

Course Outline and Required Readings

Assignments will specify additional required readings.

Week 1. Introduction

- 4 January 2012: Discussion of course requirements and learning objectives.
- **6 January 2012:** Introduction to library resources and electronic databases by Ms. Joyline Makani. Class meets in **Room G70** at Killam Library. Electronic library resources: <http://dal.ca.libguides.com/economics>.
- Assignment 1.

Macroeconomic fluctuations: the short run and the medium run

Week 2. The Mundell-Fleming model; nominal and real exchange rates; choice of an exchange rate regime; policy trilemma.

- 9 January 2012: No-class.
- Obstfeld and Rogoff, 554–558.
- Assignment 2.

Week 3. Basic facts. A small open economy model with fluctuating income. How does consumption respond to fluctuating income? Investment and the current account of a small economy under perfect capital mobility; Feldstein–Horioka “puzzle.”

- Obstfeld and Rogoff, 1–9, and 14–21.
- Assignment 3.

Week 4. Temporary versus permanent changes in income and relative prices. Saving and the interest rate; shocks to the world interest rate. Income shocks and adjustment, with an application to windfall income from oil discoveries. Country-specific versus common shocks.

- Obstfeld and Rogoff, 10–11, 28–39 and 21–23.
- Assignment 4.

Week 5. A small open economy model with uncertain income. Consumption smoothing hypothesis: permanent income, precautionary savings.

- Obstfeld and Rogoff, pp. 87–96.
- Assignment 4, Stage 1 due.

Week 6. Macroeconomic aspects of international trade. Differentiated goods (Armington assumption). Nontraded goods and the real exchange rate. Applications: the Dutch disease, the Laursen-Meltzer effect, and the Balassa-Samuelson effect.

- Obstfeld and Rogoff, 209–214 and 229–235.
- Assignment 5.

Week 7. Macroeconomic aspects of international finance. Differentiated assets, and risk sharing. Applications: portfolio diversification and home bias. Global imbalances and adjustment of international investment positions. Valuation effects.

- Handout.
- Assignment 6.

20 February – 24 February: Study break.

Week 8. A monetary model of the exchange rate.

- Obstfeld and Rogoff, 513–521 and 526–530.

Week 9. Fiscal and monetary policy in open economies.

- Assignment 6, Stage 1 due.

Week 10. Currency crashes. Financial and banking crises. Current account reversals.

- Assignment 6, Review due.
- Obstfeld and Rogoff, 558–566.
- Díaz-Alejandro, C.F, 1985. Goodbye financial repression, Hello financial crash. *Journal of Development Economics* (Sept./Oct.) 19, 1–24.
- Cerra, Valerie, and Sweta Chaman Saxena, 2008. Growth dynamics: the myth of economic recovery. *American Economic Review* 439–457.
- Bulut, Levent, 2011. External debts and current account adjustments. *The B.E. Journal of Macroeconomics* (Topics) 11, article 37. <http://www.bepress.com/bejm/vol11/iss1/art37>.
- Hutchison, Michael M., Ilan Noy, and Lidian Wang, 2010. Fiscal and monetary policies and the cost of sudden stops. *Journal of International Money and Finance* 29, 973–987.
- Kaminsky, G.L., C.M. Reinhart, 1999. The twin crises: The causes of banking and balance-of-payments problems. *American Economic Review* 89 (June), 473–500.
- Milesi-Ferretti, G.M., A. Razin, 2000. Current account reversals and currency crises: empirical regularities. In Paul Krugman (Ed.), *Currency Crises*. University of Chicago Press, Chicago, Illinois, pp. 285–323.

Economic growth: the long run

The textbook's coverage of economic growth is (understandably) not comprehensive. A good and relatively up-to-date textbook on economic growth is

David Weil. 2005. *Economic Growth*. Pearson.

Week 11. Growth accounting, and sources of economic growth. Solow-Swan model of economic growth. Growth versus level effects of taxes, government spending, openness, etc.

- Obstfeld and Rogoff, 429–440, and 459–473.
- Assignment 7.

Week 12. Income level accounting. Development accounting. Convergence in income levels.

- Obstfeld and Rogoff, 454–459.
- Assignment 8.

Week 13. Factor accumulation, geography, or institutions as the fundamental determinants of cross-country income level differentials.

Style guidelines

This style guidelines should serve as a quick reference for *all* assignments. A more comprehensive style guideline is Chicago Manual of Style. American Psychological Association Publication (APA) Manual (6th ed. 2010) is an alternative. Both of these style guides are available at Electronic Library Resources webpage <http://dal.ca.libguides.com/economics> under “Writing Help.” You can use either of these guidelines, as long as you use them consistently.

General: Assignment must be typed in 12-point Times New Roman (or equivalent) font, with at least 2.25cm margins on all sides and double spaced. Pages (other than the title page), tables, figures, sections and footnotes must be numbered consecutively in the text in Arabic numerals.

Footnotes: Keep the use of footnotes to a minimum. Do not use footnotes for citations (see below).

Referencing: You must provide correct attribution of all sources from which you have obtained facts and opinions.

Quotations: Quotations must correspond exactly with the original in wording, spelling, and punctuation. Page numbers must be given. Changes must be indicated: use brackets to identify insertions; use dots (...) to show omissions. Also indicate where emphasis has been added. Only quotations of over 50 words should be separated from the text; these should also be indented at beginning margin and double-spaced with page number to be shown in brackets.

Equations: Displayed equations should be numbered consecutively throughout the manuscript as (1), (2) etc., near the right-hand margin of the page, and punctuated the same as the text.

Capitalize the words Table, Figure, Section when they are used in the text to refer to a specific table, figure, or section.

Citations: References mentioned in the text (i.e., citations) should refer to the author’s name (without initials) and year of publication. If the citation is a direct part of the sentence use the author’s last name followed by the publication date in parentheses. For example:

More recently, Calomiris and Mason (2000) examine the question whether fundamentals can explain the survival time of banks during the great depression.

If the citation is included in parentheses in the sentence then separate the author’s name and the date with a comma and separate the citations with semi colons. For example:

Along the lines of the first approach, a number of papers have tested for autocorrelation in bank failures, controlling for macroeconomic conditions (Grossman, 1993; Hasan and Dwyer, 1994; Schoenmaker, 1996).

The Reference section: There must be a strict one-to-one correspondence between the names and years cited in the text and those on the reference list. The list of references should appear at the end of the main text (after any appendices). It should be listed in alphabetical order by author’s name. Do not number the citations.

Examples of references format for different types of publications:

For periodicals: Beine, M., Laurent, S., Lecourt, C., 2003. Official central bank interventions and exchange rate volatility: evidence from a regime-switching analysis. *European Economic Review* 47 (5), 891-911.

For monographs: Edwards, S., 1989. *Real Exchange Rates, Devaluation, and Adjustment: Exchange Rate Policy in Developing Countries*. MIT Press, Cambridge, MA.

For contributions to collective works: Freebairn, J., 1990. Is the Dollar a commodity currency. In: Clements, K., Freebairn, J. (Eds.), *Exchange Rates and Australian Commodity Exports*. Centre for Policy Studies,

Monash University, and Economic Research Centre, The University of Western Australia, Melbourne and Perth, pp. 6-30.

For working paper in numbered series: Bayoumi, T., 1989. Saving-investment correlations: immobile capital, government policy or endogenous behavior? IMF Working Paper no. 89/66. Washington, DC.

Chinese names may be listed in the references with the surname first, as follows:

Liu Y.H., Chew S.B., and Li W.Z., 1998. Education, experience and productivity of labor in China's township and village enterprises: The case of Jiangsu province. *China Economic Review* 9, 47-58.

Citing and listing of Web references: If there is an assigned DOI (Digital Object Identifier), include it even if it is a PDF file. Otherwise, include the URL of the journal website, even if you accessed the article through a database.

Tables: Here is an excellent quote from the Chicago Manual of Style on the “virtues of tables” (http://www.chicagomanualofstyle.org/ch13/ch13_sec001.html):

A table offers an excellent means of presenting a large number of individual, similar facts so that they are easy to scan and compare. A simple table can give information that would require several paragraphs to present textually, and it can do so more clearly. . . . A table should be as simple as the material allows and understandable on its own; even a reader unfamiliar with the material presented should be able to make general sense of a table. The text may highlight the main points in a table and summarize its message but should not duplicate the details.

Figures: Figures can have similar virtues as tables, as long as you use them judiciously and follow the same principles: clarity, ease of understanding, and appropriate labeling. Do not use a background colour in your graphs. Avoid using cluttered graphs. Distinguish separate series by different symbols or line styles, and not only by line colours. (Remember most publishing and printing are still in black and white.)

Other resources: If you are in doubt, or have other questions, use the Turabian (2007) or *Chicago Style of Manual* (and its author-date system for citations) or *APA Publication Manual*.

Title page format guideline for assignments

<p>Title</p> <p>Name</p> <p>ID</p> <p>Date</p> <p>Assignment no.</p> <p>Prepared for Macroeconomic Theory for MDE, Econ 5001</p> <p>Structure and style: Research and logic: <u>Content and analysis:</u></p> <p>TOTAL:</p>
