

# ECON 203 — Elements of economic analysis 4

## Fall 2010

### Syllabus

September 27, 2010

## 1 Organization

---

<b>Lecturer:</b>	Jaroslav Borovička (Jarda)	
	borovicka@uchicago.edu	
	office hours	Monday 2-3pm, Stuart cafeteria Thursday 4-5pm, Stuart cafeteria
<b>TA:</b>	Luke Threinen	
	threinen@uchicago.edu	
	office hours	Tuesday 3-5pm, Stuart cafeteria

---

**This class meets three times a week.**

---

Lecture	Monday 9am-10:20am	Stuart 105
	Wednesday 9am-10:20am	Stuart 105
Discussion	Monday 6pm-6:50pm	Cobb 116

---

Attending the discussion is highly recommended.

## 2 Recommended texts

Barro (2008) and Doepke, Lehnert, and Sellgren (1999) (DLS) are the main texts. See the literature list at the end of the syllabus.

Barro's textbook is available in the library. Relevant DLS chapters will be posted on Chalk. You should also be able to buy the DLS text in the social science building.

The lectures will largely follow DLS, but Barro is the right book to put things into context.

I will also assign additional reading and handouts, and post them on Chalk. This material will comprise a (relatively small) part of the exams, unless explicitly marked as optional.

### 2.1 Other literature

There are other texts that roughly cover the topics discussed in this class. If you are interested, here are some suggestions. None of the following books is required.

1. [Mankiw \(2009\)](#), Chapters 4, 5, 16, and 19. Lots of graphs and nice examples, very legible. The analytical framework, however, is below the level of this course.
2. [Williamson \(2011\)](#), Chapters 8, 9, 10, 11, and 14. Roughly the right level, some people recommend it, but I think the book tries to simplify notation too much.
3. [Romer \(2006\)](#), Chapters 10 and 11. I like the narrative of this textbook but it is rather short on the policy analysis. Some mathematical methods are more advanced.
4. [Heijdra \(2009\)](#), Chapters 5, 9, and 11. More technical and more advanced but clear in explaining the detail.
5. [Colander \(2010\)](#). Very good narrative, exposes you to alternative approaches but lacks technical detail. Colander is very good on the methodology of economic education.
6. [Cecchetti \(2008\)](#). Provides links between the macroeconomy and the financial sector.

### 3 Assignments

There will be approximately 8 problem sets, one per week, due Wednesdays.

Problem sets are **always** due at the end of the lecture on the given due date. They cannot be submitted to mailboxes, the undergraduate office, or elsewhere.

**Late submissions:** Submitting the problem set late is punished severely. If you submit late for the  $n$ -th time, and the number of days late is  $t$ , then the penalty is

$$\min(100\%; 10n^2(1+t^2)\%)$$

(use  $t = 0$  if you submit on the due date, but after the lecture). For instance, if you submit two days late and this is your first late submission, the penalty is 50%. You do the math.

**Groups:** You are encouraged to work on the problem sets alone. If you want, you can discuss the problem sets in groups of **at most 3 people** (everybody gets stuck sometimes, and cooperation can help you understand the material). However, every member of the group has to submit his/her own solution. Although you can cooperate when discussing the problem sets, the **final solution and writeup** has to be done individually — it is not acceptable to copy the final answers from another group member.

You have to **list all members** of your group in your submitted answers.

Problem sets will be graded by the TA. Therefore, all questions regarding the problem sets should be directed to him.

**The first problem set** should serve as a revision, and is due **Wednesday, October 6**.

### 4 Exams

<b>Midterm</b>	Monday, November 1 (week 6), class time	80 minutes
<b>Final</b>	TBD	120 minutes

## 5 Grading

Problem sets	20%
Midterm	30-40%
Final	40-50%
Class participation	3%

The table above indicates that I will overweigh the better grade from your midterm or final.

Although problem sets count relatively little, people who actually worked through the solutions carefully will benefit in the exams.

There are **no discretionary ways** how to improve your grade at the end of the course.

## 6 Academic integrity

Besides the usual university policies on academic honesty, students' cheating makes me **really** angry. So beware!

## 7 Outline of the course

The course follows the Macroeconomics textbook by [Barro \(2008\)](#), Chapters 10-18 (see bibliography below). However, the main reference is the supplement to Barro's textbook written by [Doepke, Lehnert, and Sellgren \(1999\)](#).

I will regularly give out extra readings on contemporary macroeconomic situation and debate (we really live in exciting times now!) that are linked to the covered material.

### 7.1 Government spending and public services

Government sector — public spending, lump-sum and proportional taxes. Impact of taxes and government spending on capital accumulation in an infinite-horizon model. Crowding out and distortionary taxes. Laffer curve.

### 7.2 Taxes and transfers, social security

Pay-as-you-go and fully funded social security systems. Social security in an OLG model.

### 7.3 Public debt, Ricardian equivalence, optimal taxation

Financing of the government spending through taxation and debt. Conditions for Ricardian equivalence. Optimal taxation when taxes are distortionary. Trajectory of government debt.

### 7.4 International trade

Ricardian trade theory (comparative advantage). A two country model. Gains from trade, impact of tariffs.

## 7.5 Exchange rate determination and monetary policy

Purchasing power parity. Interest rate parity. Money and exchange rates under flexible prices. Non-stochastic and stochastic case.

## 7.6 Monetary policy and the real sector

Fiscal and monetary policy. Seignorage, budget deficits, and public finance ‘catastrophies’. Four big inflations. Inflationary expectations. Monetary policy and the Phillips curve. Strategic interaction between government and private sector.

## 7.7 Financial sector and macroeconomics

### References

- Barro, Robert J., 1997. *Macroeconomics*, MIT Press, 5th edn.
- Barro, Robert J., 2008. *Macroeconomics: A Modern Approach*, South-Western College Publishing.
- Cecchetti, Stephen G., 2008. *Money, Banking, and Financial Markets*, McGraw-Hill, 2nd edn.
- Colander, David C., 2010. *Macroeconomics*, McGraw-Hill, 8th edn.
- Doepke, Matthias, Andreas Lehnert, and Andrew W. Sellgren, 1999. “Macroeconomics.” Technical supplement to [Barro \(1997\)](#).
- Heijdra, Ben J., 2009. *Foundations of Modern Macroeconomics*, Oxford University Press, 2nd edn.
- Mankiw, N. Gregory, 2009. *Macroeconomics*, Worth Publishers, 7th edn.
- Romer, David, 2006. *Advanced Macroeconomics*, McGraw-Hill, 3rd edn.
- Williamson, Stephen D., 2011. *Macroeconomics*, Addison-Weasley, 4th edn.