

Course Syllabus

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Class: Fundamentals of Macroeconomic Theory

Professor: Mihaela Pinte

Classroom: Labor Center 301

Class time: TuTh 12:30PM - 1:45PM

Office: DM 317

Office Hours: TTH 2-3pm or by appointment

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Course Description and Purpose

This course is designed as the first portion of the graduate macroeconomic theory sequence. It develops the tools of modern macroeconomics by reviewing some of the concepts taught at undergraduate level and “upgrading” them through calculus and mathematical models. It also introduces new concepts and models that will allow students to understand and develop further the macroeconomic literature.

Course Objectives

- Review some of the macroeconomics concepts taught at undergraduate level (e.g. Aggregate Demand and Aggregate Supply) and formalize them using mathematical models.
- Investigate the effectiveness of monetary and fiscal policy on output, employment, the interest rate and the price level
- Introduce different schools of thoughts in Macroeconomics
- Understand the AEH and stability of IS-LM-AS model under neo-Keynesian synthesis
- Investigate the government budget restrictions and the implied stock-flow interaction between the government deficit and debt or money, which allows a comparison of stability and effectiveness of money financed and bond financed increases in government spending
- Understand what Rational Expectations are and their implications for the conduct of economic policy
- Investigate the implications of REH for the way we specify and use macroeconomic models and discuss the Lucas Critique
- Introduce the concept of Ricardian equivalence and assess its validity

- Understand the concept of dynamic inconsistency and how reputation can be used if optimal policy is inconsistent

Course prerequisites

Students are assumed to be familiar with calculus, linear algebra and graph representation and have some training in macroeconomic theory.

Required book

“**The Foundations of Modern Macroeconomics**” by Ben J. Heijdra and Frederick van der Ploeg, Oxford University Press, any edition

Supplements

“**Macroeconomics**”, by O. Blanchard

Grades

There will to be two exams; one midterm worth 40% and one final worth 45% of the final grade.

Homework assignments will count for the remaining 15% of your final grade. The assignments can be completed individually or in pairs. If you decide to work in pairs choose your partner at the end of the first day, and do not change later on. Only one solution per pair is to be turned in every week.

Course Coverage

1. Math review (Differentials and Derivatives, Integration, Basic Linear Algebra)
2. The IS-LM-AS Model (Heijdra/van der Ploeg; chap1)
 1. The Aggregate Labor Market
 2. Aggregate Demand
 3. Schools of Thought in Macroeconomics
3. Dynamics in Aggregate Supply and Demand (Heijdra/van der Ploeg; chap 2; Supplementary notes)
 1. The Adaptive Expectations Hypothesis and Stability
 2. Wealth Effects and the Government Budget Constraint
 3. Complete Dynamic Macroeconomic Model

Midterm

4. Rational Expectations and Economic Policy(Heijdra/van der Ploeg; chap 3)
 1. What are Rational Expectations?
 2. How to Solve Linear RE Models
 3. Applications of REH in Macroeconomics
 4. Should we take the Policy Ineffectiveness Proposition Seriously?
 5. Lucas Critique

5. The Government Budget Deficit(Heijdra/van der Ploeg; chap 6)
 1. Ricardian Equivalence
 2. The theory of government debt creation

6. Macroeconomic Policy, Credibility and Politics(Heijdra/van der Ploeg; chap 10)
 1. Dynamic Inconsistency
 2. Reputation Effects

Final exam: Tuesday, 12/10/2024, 9:45-11:45am, DM 194

Important Information

Before starting this course, please review the following pages:

- [Accessibility and Accommodation \(https://fiu.instructure.com/courses/202336/pages/accessibility-and-accommodation-5\)](https://fiu.instructure.com/courses/202336/pages/accessibility-and-accommodation-5)
- [Academic Misconduct Statement \(https://fiu.instructure.com/courses/202336/pages/academic-misconduct-statement-6\)](https://fiu.instructure.com/courses/202336/pages/academic-misconduct-statement-6)

*The professor reserves the right to change or modify the syllabus at any time during the semester.

Sample Grading Scheme

Letter	Range%	Letter	Range%	Letter	Range%
A	95 or above	B	83 - 86	C	70 - 76
A-	90 - 94	B-	80 - 82	D	60 - 69
B+	87 - 89	C+	77 - 79	F	59 or less