



**ECON 6025: MACROECONOMICS THEORY II**  
**(Semester II - 2020/2021)**  
**Department of Economics**  
**The University of the West Indies - Mona**

Lecturer: Nken Moïse

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Office: McIntyre Complex E-208

Class: TBD. (virtual classes<sup>1</sup>; use the Black Board Corporate (BBC) link in OurVLE to access virtual classroom).

Office Hours: by Appointment

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**Prerequisite:** ECON 6024

**Course Description:**

This course is the second part of a two-course series in macroeconomic theory at the graduate level. Topics in this course include alternative theories of fluctuations; rational expectations; inflation and monetary policy; and budget deficits and fiscal policy. Strong emphasis is placed on empirical application and policy implications.

**Learning Outcomes:**

Upon completing this course, the successful student should be able to:

- Show how income, interest rates, and other macroeconomic variables are determined in IS-LM models of closed, small- and large-open economies.
- Use the IS-LM framework to derive the Aggregate Demand curve and show how relevant macroeconomic variables cause shifts in the curve.
- Derive the short-run Aggregate Supply curve under various assumptions about nominal wage and price rigidities.
- Understand and describe the concepts, tools and implementation of monetary and fiscal policy; their limitations and relative advantages and disadvantages, and how they interact with aggregate economic activity.

**Modes of Delivery:**

This class meets twice a week. Students will make literature review related to papers that have applied and/or policy orientation after the lecturer completes the syllabus. Both the material

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<sup>1</sup>All lectures are recorded and/or pre-recorded.

presented by the lecturer and in the literature review will be included in the exam. In addition, problem sets (not for grading) will be assigned for practice.

**Assessment:**

	Weighting	Due dates
(online) class presentation	10%	during the period March,29-April, 9, 2021
Mid-semester Examination	30%	TBD
Final Examination	60%	exam period is Monday April 26-Friday May 14, 2021

\*Papers submitted after the deadline will not be accepted.

**Resources:**

*Required Textbook:* Romer, David (2011), *Advanced Macroeconomics*, 4th edition, McGraw-Hill-Irwin.

*Supplementary Text:* Mankiw, Gregory (2016), *Macroeconomics*, 9th edition, Worth Publishers.

**Course Outline:**

Lecture notes	Topics/Information	Readings <sup>1</sup>
<b>Part 1</b>	<b>Traditional Keynesian Theories of Fluctuations</b> <ul style="list-style-type: none"> <li>• The IS-LM Model and Aggregate Demand <ul style="list-style-type: none"> <li>– Closed Economy</li> <li>– Open Economy</li> </ul> </li> <li>• Deriving the Short-Run Aggregate Supply Curve</li> </ul>	Sections 6.1, 6.2, 6.3, 6.4, 6.10
<b>Part 2</b>	<b>Microeconomic Theories of Fluctuations</b> <ul style="list-style-type: none"> <li>• Model of Imperfect Competition and Price-Setting</li> <li>• Real Rigidity</li> <li>• The Lucas Model</li> </ul>	Sections 6.5, 6.6, 6.7, 6.8, 6.9
<b>Part 3</b>	<b>Inflation and Monetary Policy</b> <ul style="list-style-type: none"> <li>• Inflation, Money Growth and Interest Rates</li> <li>• Monetary Policy and the Term Structure of Interest Rates</li> <li>• Rules vs. Discretion <ul style="list-style-type: none"> <li>– The Dynamic Inconsistency of Low-Inflation Monetary Policy</li> <li>– Addressing the Dynamic Inconsistency Problem</li> </ul> </li> <li>• Stabilization Policy</li> <li>• Interest-Rate Rules and the Conduct of Policy</li> </ul>	Chapter 11

- The Government Budget Constraint
  - Ricardian Equivalence: Theory and Practice
  - Strategic Debt Accumulation
  - Debt Crises
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*Journal Articles:*

1. Poole, W. (1970). Optimal Choice of Monetary Instruments in a Simple Stochastic Macro Model. *Quarterly Journal of Economics*, 84, 197-216.
2. Friedman, M. (1968). The Role of Monetary Policy. *American Economic Review*, 58, 1-17.
3. Mankiw, N. G., & Reis, R. (2002). Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve. *Quarterly Journal of Economics*, 117(4), 1295-1328.
4. Barro, R. J. (1994). The Aggregate-Supply/Aggregate-Demand Model. *Eastern Economic Journal*, 20(1), 1-6.
5. Enders, W., & Hurn, S. (2007). Identifying Aggregate Demand and Supply Shocks in a Small Open Economy. *Oxford Economic Papers*, 59(3), 411-429.
6. Libanio, G. A. (2009). Aggregate Demand and the Endogeneity of the Natural Rate of Growth: Evidence from Latin American Economies. *Cambridge Journal of Economics*, 33(5), 967-984.
7. Turnovsky, S. J. (2011). Stabilization Theory and Policy: 50 Years after the Phillips Curve. *Economica*, 78(309), 67-88.
8. Mendoza, E. G. (1995). The Terms of Trade, the Real Exchange Rate, and Economic Fluctuations. *International Economic Review*, 36(1), 101-137.
9. Blinder, A. S. (1997). What Central Bankers Could Learn from Academics - and Vice Versa.? *Journal of Economic Perspectives*, 11, 3-19.
10. Bernanke, B. S. and Mishkin, F. S. (1997). Inflation Targeting: A New Framework for Monetary Policy? *Journal of Economic Perspectives*, 11, 97-116.
11. Svensson, L. (1997). Inflation forecast targeting: Implementing and monitoring inflation targets. *European Economic Review*, 41, 1111-1146.
12. Taylor, J. (1993). Discretion versus Policy Rules in Practice. *Carnegie-Rochester Conference Series on Public Policy*, 39, 195-214.

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<sup>1</sup>All chapters are taken from the Romer textbook. The actual delivery of the content may vary based on class circumstances.

13. King, R. G. (2000). The New IS-LM Model: Language, Logic, and Limits. Federal Reserve Bank of Richmond Economic Quarterly, 86, 45-103. [http://www.richmondfed.org/publications/research/economic\\_quarterly/2000/summer/king.cfm](http://www.richmondfed.org/publications/research/economic_quarterly/2000/summer/king.cfm)
14. Clarida, R., Gali, J. & Gertler, M. (1999). The Science of Monetary Policy: A New Keynesian Perspective. Journal of Economic Literature, XXXVII, 1661-1707.
15. Christiano, L.J., Eichenbaum, M. & Evans, C. L. (2005). Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy. Journal of Political Economy, 113, 1-45.
16. Chari, V. V. & Kehoe, P. J. (2006). ?Modern Macroeconomics in Practice: How Theory is Shaping Policy.? Journal of Economic Perspectives, 20, 3-28.
17. Solow, R. (2008). The State of Macroeconomics and reply by Chari and Kehoe. Journal of Economic Perspectives, 22(1), 243-249.
18. Blanchard, O. J. (2008 ). The State of Macro. NBER Working paper 14259.
19. Hall, G. J., & Sargent, T. J. (2011). Interest Rate Risk and Other Determinants of Post-WWII US Government Debt/GDP Dynamics. American Economic Journal: Macroeconomics, 3(3), 192-214.
20. Bhuiyan, R., & Lucas, R. F. (2007). Real and Nominal Effects of Monetary Policy Shocks. Canadian Journal of Economics, 40(2), 679-702.
21. Sargent, T. J. (1972). Rational Expectations and the Term Structure of Interest Rates. Journal of Money, Credit, and Banking, 4(1), 74-97.
22. Campbell, J. Y., & Shiller, R. J. (1991). Yield Spreads and Interest Rate Movements: A Bird's Eye View. Review of Economic Studies, 58(3), 495-514.
23. Kydland, F. & Prescott, E. (1977). Rules Rather than Discretion: The Inconsistency of Optimal Plans. Journal of Political Economy, 85(3), 473-491.
24. Branch, W. A. (2004). The Theory of Rationally Heterogeneous Expectations: Evidence from Survey Data on Inflation Expectations. Economic Journal, 114(497), 592-621.
25. Zarnowitz, V., & Lambros, L. A. (1987). Consensus and Uncertainty in Economic Prediction. Journal of Political Economy, 95(3), 591-621.
26. Gurkaynak, R. S., Levin, A., & Swanson, E. (2010). Does Inflation Targeting Anchor Long-Run Inflation Expectations? Evidence from the U.S., UK, and Sweden. Journal of the European Economic Association, 8(6), 1208-1242.
27. Capistran, C., & Ramos-Francia, M. (2010). Does Inflation Targeting Affect the Dispersion of Inflation Expectations? Journal of Money, Credit, and Banking, 42(1), 113-134.
28. Allen, C. & Robinson, W. (2004) Monetary Policy Rules and the Transmission Mechanism in Jamaica Bank of Jamaica Working Paper March 2004.

29. Sargent, T. J., & Wallace, N. (1975). 'Rational' Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule. *Journal of Political Economy*, 83(2), 241-254.
30. Kwon, G., McFarlane, L., & Robinson, W. (2009). Public Debt, Money Supply, and Inflation: A Cross-Country Study. *IMF Staff Papers*, 56(3), 476-515.
31. Lewis, J. (2004) Sovereign Debt Sustainability in Jamaica: A Risk Management Approach, Bank of Jamaica Working Paper March 2004.
32. Ricciuti, R. (2003). Assessing Ricardian Equivalence. *Journal of Economic Surveys*, 17(1), 55-78.
33. Reinhart, C. M., & Rogoff, K. S. (2011). From Financial Crash to Debt Crisis. *American Economic Review*, 101(5), 1676-1706.

***Important Notes:***

- This syllabus may be revised occasionally throughout the semester. That is, some topics may be added or deleted depending on the pace of the course. All changes to this syllabus will be announced in class and posted on the web.
- Student participation is heavily weighted in this course. Each student is required to make a class presentation. The papers are listed in the resource section above. Each presentation should last no more than 30 minutes and should address the following questions: What is the paper about? What is the main methodology? What are the main conclusions of the paper? What is a limitation of the paper? At the end of the presentation, the student is required put forward at least two questions or comments to stimulate discussion of the paper.