

Economics 506  
Macroeconomic Analysis  
Temple University Fall 1997  
Charles Swanson

**Texts:** (1) Michael G. Rukstad, Macroeconomic Decision Making in the Real World: Text and Cases  
(2) Class notes, RATS handouts

**Grading:** Homeworks (5) 25%  
Midterm: 35%  
Final: 40%  
Paper (optional): 30%

Office: Ritter Annex 802  
phone: 1-8168 (204-9595, then 18168 for msg.)  
e-mail: swansonc@astro.ocis  
Web page: <http://astro.ocis.temple.edu/~swansonc>

The course grade is based on the first four items according to the above weights, if no paper is written. The paper, if completed, will displace 10 percentage points from each item, leaving: HW-15%, Midterm-25%, Final-30%. The paper will count only if it raises your course grade.

**Course objectives:** This course has several objectives. It is partly a lead-in to the Ph.D. sequence 606-607, and partly a capstone for previous macro courses that students may have had. As a lead-in, the goals of the course are (1) to introduce some technical models, (2) see what these models imply economic behavior, (3) and to discuss some of the main issues and questions in macro. As a capstone, the course reviews the main results and policy implications of the three main paradigms of macroeconomics: Keynes's demand management theory, Friedman's monetary management hypotheses, and the modern growth model with its emphasis on the role of technology and the production function. These paradigms, which are sometimes viewed as gospel truth by their advocates, are often treated as suggestions and as objects of preliminary discussion in advanced research. Going through these paradigms therefore serves to review most of macroeconomics as it is taught at the undergraduate level and to motivate the technical work that researchers engage in.

**Course content:** Macroeconomics is about business cycles (booms and recessions), economic growth inflation, interest rates, investment and unemployment on the national level, and the effects of government policies including taxation, budget deficits, money supply and financial constraints. In short, macroeconomics is directed at the question of what the federal and state governments can do to bring greater material prosperity to all U.S. citizens. "Greater material prosperity" may involve more goods or it may involve less onerous work to acquire the same number of goods. Our subject matter will be in three main areas:

(1) The financial decisions at the federal level: money, monetary systems and debt. This is a small subset of macroeconomics, but it contains all of "Keynesian" and all of "Monetarism," and most of what is discussed in business newspapers. A typical question is whether the U.S. dollar needs to be "backed" as it would be under a gold standard, or can a fiat system such as the present one survive indefinitely? (The answer to this question is: If you find a clear and cogent reason for yes or for no, you will win high respect within the economics profession.)

(2) The modern growth model. The interrelationship among the aggregate levels of output, investment, consumption, labor input, taxation and debt across time is the objective of the modern growth model. Since this is a highly ambitious and sophisticated model, this course will only introduce a rudimentary version of the model. Variations of this model permeate every issue of every top journal, so it is important. The basic ingredients are constrained maximization of individuals and firms across time and subject to well specified production, trading and information constraints. Although some growth models contain money, most do not, and the main weakness of the growth model is that it is a poor representation of monetary systems. Indeed, the economics profession today (1997) has no good and widely accepted model of monetary systems, although some seem to be emerging.

(3) Qualitative and quantitative aspects of the aggregate U.S. economy. An economic model is used to support an economic theory, and a theory is a way of thinking about how the economy fits together, how it runs. The previous two topics are devoted to economic theory. The goal of a theorist is to develop a single model or a set of models that are self-consistent, as comprehensive and inclusive as possible, and that are consistent with as much of the real world as possible. To know whether a theory is consistent with the real world, the properties of the real world must be known and understood. The third goal of the course is to provide some introduction into the examination of the properties of the real economy, and to conduct this examination independently of theory. Separating the examination of the economy (the data) from the theory (the explanations) is more difficult than it appears, because the theory slips in so easily and surreptitiously. For example, the economic historian Peter Temin confuses theory with data when he argues that the Smoot-Hawley tariff of 1930 was of limited relevance for the Great Depression (1930-33) because it raised rather than lowered aggregate demand. Temin presumes that aggregate demand is a key determinant of aggregate economic activity, a presumption that is valid in some theories and invalid in others. Our goal in learning about the quantitative aspects of the economy will consist of looking at numbers, statistics, and qualitative statements. We may do some time series regression analysis if there is interest. This can be very useful, but also requires access to a computer.

**Course method:** We will attempt to present several real world situations and several paradigms that are intended to interpret and assist in predicting the effects of various policies. The successful meeting of situation with paradigm is the goal of macroeconomics. The situations include the Great Depression of the 1930's, the U.S. and British attempts to maintain a gold standard, the attempts to form a European Monetary Union, and other international financial institutions and the policies of Thatcher, Reagan, and Paul Volker. The paradigms include those of Monetarism, Keynesianism, New Classical and New Keynesian.

**Class sequence:** We will work through the cases and arguments of the Rukstad book. This book contains the essentials of Keynes and Monetarism and some data. It also presents topics that lead naturally to some of the main questions, such as why do we have a fractional reserve banking system and what is the purpose of a gold standard? In addition, each class will present a small piece of the growth model and some aspect of data analysis.

**The exams:** Prior to each exam, a set of questions and topics will be given. This list will be the best answer to questions of the sort: will this be on the exam? The test format will be half short written answer and half multiple choice. The multiple choice questions will sometimes be very difficult and require putting several different arguments together. Give these questions time.

**House rules:**

- (1) You must ask questions when things are unclear. But be courteous of your classmates.
- (2) Quiet beverages (coffee, tea) are permitted. Distracting food (cheesesteaks, beef fricassee) is not.
- (3) No reading, not even the Wall Street Journal. Doodle if bored.