

ECON 3123: Macroeconomic Theory I

1. TEACHING ARRANGEMENT

- The current default teaching mode is face-to-face meeting starting from September 1, 2022. For students who cannot attend in person due to covid-related reason, please get approved ahead of time to enter the zoom meeting via mixed-mode lite (i.e., limited interaction with online students).
- Please stay alerted for any update on the teaching model due to rapidly changing Covid-19 situation. (<https://covid19info.hkust.edu.hk/teaching-arrangements-fall-term-202223>)

2. WHO ARE THE INSTRUCTORS?

General Information

- Instructor: Yang Lu (yanglu@ust.hk)
- Section Time and Location
 - Mon 4:30 – 5:50 PM, LTH
 - Fri 12:00 – 1:20 PM, LTH
- Office hours: by appointment, LSK 6059
- Course Website: <https://canvas.ust.hk>

Teaching Assistant

- Feiting Xu (fxuaf@connect.ust.hk)
 - Wed 11:30AM – 12:20 PM, Rm 1410 (Lift 25-26)
 - Office hours: TBA
- Weekly Tutorials
 - In tutorials, we will review course material, sharpen analytical techniques, and cover exercise questions.

Zoom Links will be posted on your canvas.

3. WHAT IS THIS COURSE ABOUT?

Course Description

This is an introductory course to macroeconomic theory. It covers business cycles in a closed economy and an open economy. This course deals with theory, data, and economic policies to develop a balanced perspective on the real-world economic environment.

We define major macroeconomic variables, such as gross domestic product, price level, and unemployment rate. Then, we will investigate how the goods and money markets move in the short run (IS-LM). Building on the IS-LM model, we introduce the labor market and prices into the analysis and develop the IS-LM-PC framework for the short and medium run. Using the theoretical framework, we study what can be done by a fiscal authority and a central bank to stabilize macroeconomic fluctuations. Finally, we extend our framework to open economies and investigate the interactions of domestic macroeconomic variables with exchange rates, trade, and foreign economic conditions.

Required Textbook

- Blanchard, Olivier (2021), *Macroeconomics*, 8th ed., Pearson.
- Chapters from the textbook will be assigned as readings. You are expected to read them.
- Because this textbook's 7th and 8th editions are substantially different from the previous editions, you are strongly advised to have the recent editions.

Prerequisites

This course is for BSc degrees in Economics and also available to other students as permitted by the regulations. Students are also expected to have completed an introductory mathematics course.

Macroeconomics Sequence

- Building on the materials covered in this course, students will learn more advanced topics in Macroeconomic Theory II (ECON 3143).
- A tentative textbook for ECON 3143, taught by Professor Jenny Xu in Spring 2022, is Barro, Chu, and Cozzi (2017), *Intermediate Macroeconomics*, Cengage.

References

This list is only for those who find macroeconomics fascinating and want to study further in the future. They are not included in the required readings.

- Garin, Julio, Robert Lester, and Eric Sims (2021). *Intermediate Macroeconomics*. https://www3.nd.edu/~esims1/gls_textbook.html
- Schmitt-Grohe, Stephanie, Martin Uribe and Michael Woodford (2019), *International Macroeconomics*. <http://www.columbia.edu/~mu2166/UIM/index.html>
- Landefeld, J. Steven, Eugene P. Seskin, and Barbara M. Fraumeni (2008). “Taking the Pulse of the Economy: Measuring GDP.” *Journal of Economic Perspectives* 22(2): 193–216. <https://www.aeaweb.org/articles?id=10.1257/jep.22.2.193>
- Romer, David H. (2000). “Keynesian Macroeconomics without the LM Curve.” *Journal of Economic Perspectives* 14(2): 149–69. <https://www.aeaweb.org/articles?id=10.1257/jep.14.2.149>
- Bernanke, S. Ben (2013), “A Century of US Central Banking: Goals, Frameworks, Accountability.” *Journal of Economic Perspectives* 27(4): 3-16. <https://www.aeaweb.org/articles?id=10.1257/jep.27.4.3>
- Gorodnichenko, Yuriy (2021). “Back to the 1970s?” <https://voxukraine.org/en/back-to-the-1970s/?fbclid=IwAR2OrXhbmEs0y54XxHDAFJZBJf4uVJD850bGLsmoDQIiLEe-F8cUvQBmA>

Learning Outcome – School Intended Learning Outcomes (“SILOs”)

Upon successful completion of this course, you should be able to:

- 1) Identify important macroeconomic variables and understand their relationships. (SILO # 4.1)
 - 2) Gather and organize the relevant macroeconomic information for a given context. (SILO # 7.2)
 - 3) Apply tools learned in class to analyze some historical and current macroeconomic events. (SILO # 4.2)
 - 4) Discuss the consequences of a macroeconomic shock or a policy intervention. (SILO # 4.3)
 - 5) Develop an appreciation for macroeconomics and a desire to continue further study. (SILO # 9)
- For the details of SILOs, please refer to the following link:
<http://www.bm.ust.hk/sbmlern/eng/thirdcat.php?sid=5&thirdid=3>

Course Outline and Tentative Schedule

- I. Introduction and Measurement (Chapters 1 and 2): Weeks 1-2

- II. The Short Run
 - a. The Goods Market and The IS Relation (Chapter 3): Week 3
 - b. Financial Markets and The LM Relation (Chapter 4): Week 4
 - c. The IS-LM Model and its Extended version (Chapter 5&6): Week 5
 - d. Financial Markets and Expectations (Chapters 14): Week 6
 - e. The Great Financial Crisis (Chapter 6): Week 7

- III. The Medium Run
 - a. The Labor Market (Chapter 7): Week 8
 - b. The Phillips Curve, the Natural Rate of Unemployment, and Inflation (Chapter 8): Week 9
 - c. From the Short to the Medium Run: The IS-LM-PC Model: Week 10

- IV. The Short Run in an Open Economy
 - a. Openness in Goods and Financial Markets (Chapter 17): Week 11
 - b. The Goods Market in an Open Economy (Chapter 18): Week 12
 - c. Output, the Interest Rate, and the Exchange Rate (Chapter 19): Week 13

- V. The Long Run (if time permits)

Remark: Depending on our progress, we may or may not cover all these topics. Our lecture notes are mainly based on but **not limited to** the textbook materials (the associated chapters in Blanchard textbook are in parentheses).

4. ASSESSMENT / EXAMS / PROBLEM SETS

Assessment Scheme

Problem Sets	10%	2 problem sets
Midterm	40%	In-class, Oct 31, Monday
Final	50%	TBA

Exam, Review Session, and Regrading policy

Midterm exam: There will be NO make-up exam for midterm.

- If you are going to miss the midterm for medical reasons (you will need to provide a valid medical or legal document), please email me and Feiting **before** the exam. Your final exam will then count for 90% of your grade. If you skip midterm without any advance notification and justifiable cause, you will receive 0 for the midterm exam.

Final exam: A make-up exam will only be granted on medical grounds.

- You must notify me and Feiting by email **before** the exam for approval
- You must provide a valid medical or legal document.
- The make-up exam will take the form of an essay or a report on an assigned topic.
- The final exam is cumulative but focuses on the materials discussed after the midterm.

We will NOT hold review sessions. Instead, each lecture will begin by reviewing materials from previous lectures. In-class exercises are also designed to help you review and consolidate knowledge.

Regrading policy. If you believe that there is an error in the grading,

- you can file a formal, typed regrading request to your TA. The request should list the question you want to be regraded and an explanation of why.
- The request should be emailed to your TA within 7 days after the exam is returned.
- The TA reserves the right to regrade the entire exam. Scores may increase or decrease as a result.
- The TA further reserves the right to reject any request for fewer than 3 points.

Problem Sets

- We will have two problem sets, and all of them will be counted toward the letter grade.
- Working in groups is welcome and recommended. However, each student should submit individually written reports.
- Late submissions will not be accepted.

5. WHEN YOU HAVE QUESTIONS OR SUGGESTIONS...

Student feedback is essential for course improvement. At any time during the semester you are encouraged to give me and/or Feiting feedbacks on the lectures and/or the tutorials orally or anonymously (e.g., via campus mail, or slip a note under my office door). End-of-course survey is another excellent way for you to provide detailed feedbacks of the course.

6. STUDENT COUNSELING

Many students experience personal and family problems, as well as emotional difficulties, such as depression, suicidal thoughts, and anxiety, while in college. The Counseling and Wellness Center is available to consult with you regarding various emotional health issues that may affect you or your friends. The Counseling and Wellness Center is in Room 5003, Academic Building (via Lift 3). You can also make an online appointment with student counselors. Outside office hours, you can call 8208 2688, which is a 24-hour helpline for all HKUST students.