

ECON 3123: Macroeconomic Theory I

1. WHO ARE THE INSTRUCTORS?

General Information

- Instructor: Byoungchan Lee ([bclee@ust.hk](mailto:bcleee@ust.hk))
- Section Time and Location (3 Units)
 - Mon 10:30 – 11:50 AM, IAS 2042
 - Wed 10:30 – 11:50 AM, IAS 2042
- Office hours: Wed 2:00 – 4:00 PM, LSK 6068
- Course Website: <https://canvas.ust.hk>

Teaching Assistant

- Qichao Wang (qwangcq@connect.ust.hk)
 - T1: Fri 12:30 – 1:20 PM, LSK 1003
 - Office hours: TBA, LSK 5067
- Weekly Tutorials
 - In tutorials, we will review course material, sharpen analytical techniques, and cover exercise questions.
 - The first tutorials will be held on Sep 15.

2. 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

- According to a curriculum change effective starting in Fall 2021, Microeconomic Theory I (ECON 3113) is a prerequisite for taking ECON 3123.

Macroeconomics Sequence

- Building on the materials covered in this course, students will learn more advanced topics in Macroeconomic Theory II (ECON 3143).
- The topics covered in ECON 3143 include but are not limited to long-run economic growth, microfoundation of macroeconomics, business cycles, and open economy.
- Students will learn more formal and rigorous analytical tools, methods, and modern models in ECON 3143.

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 (2022), *International Macroeconomics*.
- 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, 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>

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 # 3)
 - 2) Gather and organize the relevant macroeconomic information for a given context. (SILO # 3)
 - 3) Apply tools learned in class to analyze some historical and current macroeconomic events. (SILO # 1 and 4)
 - 4) Discuss the consequences of a macroeconomic shock or a policy intervention. (SILO # 2 and 4)
 - 5) Develop an appreciation for macroeconomics and a desire to continue further study. (SILO # 2 and 3)
- For the details of SILOs, please refer to the following link:
<https://bmundergrad.hkust.edu.hk/academics/academic-programs/learning-outcomes>

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. Goods and Financial Markets: The IS-LM Model (Chapter 5): Week 5
 - d. Financial Markets II: The Extended IS-LM Model (Chapter 6) with Expectations (Chapters 14-16): Week 6

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

- IV. The Short Run in an Open Economy
 - a. Openness in Goods and Financial Markets (Chapter 17): Week 10
 - b. The Goods Market in an Open Economy (Chapter 18): Week 11
 - c. Output, the Interest Rate, and the Exchange Rate (Chapter 19): Week 12

- V. The Long Run (if time permits)
 - a. The Facts of Growth (Chapter 10)

3. ASSESSMENT / EXAMS / PROBLEM SETS

Assessment Scheme

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|--------------|-----|---------------------------------|
| Problem Sets | 20% | 4 problem sets |
| Midterm | 40% | In-class, October 18, Wednesday |
| Final | 40% | TBA |

- Attending lectures and tutorials is not mandatory but strongly recommend.

Exam, Review Session, and Regrading Policy

- The final exam is cumulative but focuses on the materials discussed after the midterm.
- We will hold a review session before each exam (Oct 16, Nov 29).
- If there is an issue that prevents you from taking an exam, please contact the instructor BEFORE the exams.
- 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 four 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.
- Graded problem sets will be returned through Gradescope. An invitation will be sent to your HKUST email account.

4. WHEN YOU HAVE QUESTIONS OR SUGGESTIONS...

Email policy

- Please add [Econ 3123] in the title line of your email. It may take up to 2 or 3 days to respond in busy times like exam periods.

Office Hours

- Time and Location: Wed 2 – 4 PM, LSK 6068.
- If you are not available during the time above, we can arrange a separate meeting. Alternatively, we can just talk before or after each lecture.
- You can also go to the TA's office hours.
- Questions asked right before exams and due dates of problem sets may not be answered.

5. 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.