

Intermediate Macroeconomics

Spring 2020

National School of Development, Peking University

Administration Information

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Course Description

• Audience and prerequisite

This course is designed to undergraduate students who are interested in learning macroeconomic theories and models, and applying them to address macroeconomic issues in the real world. The prerequisite is the first year economic theory. Although it is not required, having basic knowledge on calculus and econometric methodology is highly encouraged.

• Course Objectives

The primary goal of this course is to teach students macroeconomic concepts and theories at the intermediate level, and to help students develop a consistent way of thinking about key macroeconomic phenomena and policies.

By the completion of this course, students are expected to address the following type of questions: 1) what are the driving forces of economic growth? What explains the large differences in economic performance across different countries of different times? 2) How does the monetary system work? What are the determinants of inflation? 3) Why do macroeconomic activities fluctuate? How do different shocks affect output, investment, consumption and employment over the business cycle? 4) Why are people employed and unemployed? How the government deals with unemployment? What causes inequality – income inequality, wealth inequality and consumption inequality? 5) What is the role of financial markets in the macro-economy? What causes financial crises? What are the aggregate consequences of the 2007-2009 financial crisis?

• Course Plan

This course can be structured into two main parts: theories and applications. Students will learn macroeconomic theories and models at the setting of upper

undergraduate level, such as the Solow growth model and real business cycle model. In addition, there will be cases study, in which students could apply what they have learned from the textbook to the real world, such as the 2007-09 global financial crisis and 4 trillion RMB economy stimulus plan in China.

In order to develop students' interests in the data analysis and macroeconomic research, I will introduce relevant database that is often used in the macroeconomic analysis, such as aggregate data in OECD database and World Bank database, and households survey data in China. At the end of each topic, I will also discuss certain modern macroeconomic research papers, such that students will have opportunities to expose themselves to the advanced level macroeconomic research.

Textbooks (*NOT* required)

There is no required textbook in this class. I will provide lecture notes to students. The following materials are for your reference.

- Main: "Macroeconomics", by *N. Gregory Mankiw*
- Others:
 - "Macroeconomics", by *Charles Jones*
 - "Macroeconomics: Policy and Practice", by *Frederic S. Mishkin*
 - "Advance Macroeconomics", by *David Romer* (Master-level)
 - "Recursive Macroeconomic Theory", by *Lars Ljungqvist* and *Thomas Sargent* (Ph.D.-level)
 - "Handbook of Macroeconomics", Volume 2 (2016), *John B. Taylor* and *Harad Uhlig* (Research related)

Course Policy

- **Grading**

Class Participation	4%
Homework	16%
Project	5%
Midterm Exam	25%
Final Exam	50%

- **Class Participation**

Students are expected to attend all classes at their scheduled time and be responsible for all assigned materials. I will randomly check the class attendance. Two absences equal to 1% deduction. Medical or other extenuating excuses are granted upon valid documentary proofs.

- **Homework**

There will be ten assignments. The best eight scores will be counted into your grade

(2% per each assignment). Students must turn in all ten assignments. Missing one submission will be deducted by 2% from the total homework points.

- **Project**

There will be a group project. Students are required to form project groups (3 to 5 students per group, depending on the size of our class). Each group has to write a paper on a macroeconomic topic (3 to 5 pages). You are free to choose any topic, but the topic has to be related to macroeconomics. For example, you may write about the aggregate consequence of 2007-09 global financial crisis; the impact of joining WTO on China's economy growth; or pros and cons of "the Belt and Road Initiatives" policy in China. Topics on recent events are encouraged.

- **Examinations**

There will be one midterm exam and one final exam. The midterm exam covers specific chapters that will depend on the teaching progress and will be announced in class. The final exam is cumulative and covers all materials.

Students must take all exams as scheduled. There will be no make-up exams unless a student can provide valid documentation to support such an excuse for the absence. The exams' schedule is the following (may be subject to change):

Midterm Exam	04/13/2020
Final Exam	06/08/2020

Course Outline

(Note: the allocation of lectures in each topic may be subject to change)

I. Introduction (3 lectures)

- a) What's macroeconomics? Why macroeconomics?
- b) Interpreting macro data
- c) Developing macroeconomic models
- d) Macroeconomics Basics (GDP, CPI, inflation, etc.)

Case study: Can GDP buys happiness?

II. Classical Theory – The Economy in the Long Run (6 lectures)

- a) National income
- b) Monetary system
- c) The open economy – a small open economy model
- d) Unemployment and labor market

Case study:

- a) The global decline of labor share
- b) Why are some countries rich and others poor?

- c) Quantitative easing and exploding monetary base
- d) Facts on global inequality; why are income inequality and returns to education increasing?
- e) Increasing labor cost in China and industrial upgrading

III. Growth Theory – The Economy in the Very Long Run (2 lectures)

- a) Capital accumulation and population growth
- b) Technology, empirics and policy
- c) The Solow model

Case study:

- a) Saving and investment around the world (U.S. verse China)
- b) The role of industrial policy
 - Special economic zones
 - Made in China 2025
- c) Is free trade good for economic growth?

IV. Business Cycle Theory: The Economy in the Short Run (5 lectures)

- a) Introduction to economic fluctuations
- b) Aggregate demand: IS-LM model
- c) The open economy
(The Mundell-Fleming model and the exchange-rate regime)
- d) Aggregate supply
(The short-run tradeoff between inflation and unemployment)

Case study:

- a) The oil shocks
- b) International financial crisis (Mexico and Asia)
- c) The Chinese currency controversy
- d) 2007-2008 global financial crisis

V. Topics on Macro-economy (4 - 5 lectures)

- a) A dynamic model of economic fluctuations (DSGE model)
- b) Consumer behavior
- c) The theory of investment
- d) Stabilization policy
- e) Government debt and budget deficits
- f) Financial system and financial crisis

VI. Applying Macroeconomics to Current Issues (3 - 4 lectures)

- a) Increasing labor cost in China
- b) Automation, labor market and unemployment
- c) Financial frictions and macro-economy

- d) Inequality
- e) Housing markets

Data Introduction:

OECD database; World Bank database; The World Bank's Doing Business database; Chinese Industrial Enterprises Survey; Chinese Customs Database; U.S. CompuStat Database; Chinese Households Survey (CFPS, CHIP and CHFS)

Projects topics (suggested):

- 1) The 2007-2008 financial crisis in the United States
- 2) The impact of the 2007-2008 financial crisis on other countries
- 3) The economy stimulus plan from Chinese government in 2009
- 4) State-owned Enterprises (SOE) reform in China
- 5) Investment-driven growth in China
- 6) U.S. – China trade imbalance
- 7) The impact of new technologies – Automation
- 8) The debate of the industrial policy interventions
- 9) Increasing inequality (world and China)
- 10) “The Belt and Road” Policy in China
- 11) Housing and its economic impact in China
- 12) Industrial Upgrading and structural transformation in China

Reading Reference (not required):

- ***General Macroeconomics***

- 1) “*Business Cycle Research: Methods and Problems*”, Edward C. Prescott, 1998
- 2) “*The Trouble with Macroeconomics*”, Paul Romer, *The American Economist*, 2016

- ***Economic Growth***

- 3) “*Endogenous technological Change*”, Paul M. Romer, *Journal of Political Economy*, 1990
- 4) “*Why do some countries produce so much output per worker than others?*” Robert Hall and Charles Jones, *Quarterly Journal of Economics*, 1999.
- 5) “*Does schooling cause growth?*” Mark Bilal and Pete Klenow, *American Economic Review*, 2000
- 6) “*Sources of U.S. economic growth in a world of ideas*”, Charles Jones, *American Economic Review*, 2002
- 7) “*Misallocation and manufacturing TFP in China and India*”, Chang-Tai Hsieh and Pete Klenow, *Quarterly Journal of Economics*, 2009
- 8) “*Beyond GDP? Welfare across Countries and Time*”, Pete Klenow and Chad Jones, *American Economic Review*, 2016

- **Business Cycles**

9) “Agency costs, net worth, and business fluctuations”, Ben Bernanke and Mark Gertler, *American Economic Review*, 1989

10) “Fluctuations in Uncertainty”, Nick Bloom, *Journal of Economic Perspectives*, 2014

- **Labor Markets and Unemployment**

11) “The Global Decline of the Labor Share”, Loukas Karabarbounis and Brent Neiman, *Quarterly Journal of Economics*, 2014

12) “Why are there still so many jobs? The history and future of workplace automation”, David H. Autor, *Journal of Economic Perspectives*, 2015

- **Macro-economy and Finance**

13) “Credit Cycles”, Nobuhiro Kiyotaki and John H. Moore, *Journal of Political Economy*, 1997

14) “Deciphering the Liquidity and Credit Crunch 2007-2008”, Brunermeier Markus, *Journal of Economic Perspectives*, 2009

15) “Macroeconomics with Financial Frictions: A Survey”, Brunermeier Markus, Thomas Eisenbach, Yuliy Sannikov, 2012

16) “Macroeconomic Effects of Financial Shocks”, Urban Jermann and Vincenzo Quadrini, *American Economic Review*, 2012

- **Inequality**

17) “Wealth and Inheritance in the Long Run”, Thomas Piketty and Gabriel Zucman, *Handbook of Income Distribution*, 2015

18) “Unequal We Stand: An Empirical Analysis of Economic Inequality in the United States, 1967-2006”, Jonathan Heathcote, Fabrizio Perri and Giovanni Violante, *Review of Economic Dynamics*, 2009

19) “Consumption Inequality and Partial Insurance”, Richard Blundell, Luigi Pistaferri and Ian Preston, *American Economic Review*, 2008

20) “Has Consumption Inequality Mirrored Income Inequality”, Mark Aguiar and Mark Bilal, *American Economic Review*, 2015

21) “Saving and Wealth Inequality”, Mariacristina De Nardi and Giulio Fella, *Review of Economic Dynamics*, 2017

22) “Capital Accumulation, Private Property and Rising Inequality in China, 1978-2015”, Thomas Piketty, Gabriel Zucman and Li Yang, *American Economic Review*, 2018