



School of Economics
Academic Year 2014-15
Term 2

ECON102 - INTERMEDIATE MACROECONOMICS

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Course Objectives:

This course offers you the necessary tools to understand these current macroeconomic phenomena and analyze policy-related issues. We first introduce a solid framework in which relevant concepts that you may have learned in microeconomics are combined coherently together for macroeconomic analysis. Then, we address various macro issues and analyze the fundamental causes behind them in this framework. In the end, you should be able to 1) choose the appropriate models for specific economic issues, 2) give numerical and graphical solutions, 3) explain economic intuitions behind the results.

Besides learning macroeconomic concepts and their short-run and long-run relationships, you will get familiar with the way of economic thinking, e.g., identifying key issues, addressing the objectives and the constraints of market participants, solving their optimization problems, and understanding how markets coordinate individual's behaviors.

The course is rigorously structured and conducted at a fast pace. You need to clarify doubts at the earliest by contacting me or teaching assistants, or through group discussion with your fellow students. Problem sets are an integral part of the course and it is imperative that you attempt all problems.

Academic Integrity:

All acts of academic dishonesty (including, but not limited to, plagiarism, cheating, fabrication, facilitation of acts of academic dishonesty by others, unauthorized possession of exam questions, or tampering with the academic work of other students) are serious offences. All work (whether oral or written) submitted for purposes of assessment must be the student's own work. Penalties for violation of the policy range from zero marks for the component assessment to expulsion, depending on the nature of the offense. When in doubt, students should consult the instructors of the course. Details on the SMU Code of Academic Integrity may be accessed at <http://www.smuscd.org/resources.html>.

Assessment & Evaluation:

- Class Participation 10%
- Problem sets 15%
- Mid-term Exam (Closed-book) 35%
- Final exam (Closed-book) 40%

Textbook:

- Required: S. D. Williamson, Macroeconomics, Pearson Education, 3rd and 5th edition.
- Recommended: N. G. Mankiw. "Macroeconomics", 6th, 7th, or 8th edition, Worth.

Class Sessions:

- TBA

Consultation Hours:

- TBA

Supplementary References:

You may read related articles and news reports in newspapers or magazines, e.g., *Financial Times*, *Wall Street Journals*, *The Economists*. For a broader and deeper analysis on current economic situation, you may read *World Economic Outlook* and *Global Financial Stability Report* published online by International Monetary Fund.

Course Schedule:

Week	Topics	Chapter
1	Introduction <ul style="list-style-type: none">• Why is macroeconomics relevant for our daily life?• Course requirements and structure Measurement <ul style="list-style-type: none">• Nominal and real GDP• price index and inflation rate	1, 2
2	<u>Part I: A Microfounded Approach to Macroeconomics</u> Labor Market Equilibrium: A One-Period Model <ul style="list-style-type: none">• How do consumers decide optimally on the labor supply?• How do firms decide optimally on the labor demand?• Can competitive market lead to the Pareto-optimal allocation?	4, 5
3	Credit Market Equilibrium: A Two-Period Model <ul style="list-style-type: none">• How do consumers decide optimally on savings?• How do changes in income and the interest rate affect savings?• Is the tax cut a free lunch and when? Current tax cut in Singapore <i>Example:</i> social security systems in Singapore vs. in Europe	8, 9
4	A Real Intertemporal Model with Investment <ul style="list-style-type: none">• How do firms decide optimally on investment? <i>Example:</i> housing investment in U.S. and in Singapore• Bring the labor market and the credit market together General Equilibrium Analysis with Intertemporal Optimization <i>Examples:</i> Technological progress: 1990s IT boom	10
5	Monetary Intertemporal Model <ul style="list-style-type: none">• Why do we need money? Historical, current, and future perspectives• Introduce money into the real intertemporal model• Optimal long-run monetary policy – the Friedman Rule	11, 16
6	<u>Part II: Economic Growth</u> Empirical Data <ul style="list-style-type: none">• Cross-country differences in income and growth experience	6

	The Solow Model <ul style="list-style-type: none"> Capital accumulation and economic growth <i>Examples:</i> Asian Tigers in 1960-1970s 	
7	Modern Theory of Economic Growth <ul style="list-style-type: none"> Technological progress Endogenous human capital accumulation Where do technology progresses come from? R&D Revision for Mid-Term Exam	7
8	Recess	
9	Midterm Exam (1.5 hours) <u>Part III Business Cycles</u> <ul style="list-style-type: none"> Empirical data: cyclical and comovements of macro variables 	3
10	Market-Clearing Models of the Business Cycle <ul style="list-style-type: none"> Should the government stabilize economic fluctuations? Real Business Cycle Model vs. Segmented Market Model 	12
11	Keynesian Sticky Wage Model <ul style="list-style-type: none"> From sticky nominal wage to aggregate supply curve From IS-LM to aggregate demand curve The AS-AD framework Should the government stabilize economic fluctuations and how? 	13 SW 3rd edition
12	Unemployment <ul style="list-style-type: none"> Labor search model: the labor-supply perspective Efficiency Wage Model: the labor-demand perspective 	17
13	Optimal Monetary Policy <ul style="list-style-type: none"> Phillips curve Expectation-Augmented Philips curve: Money Surprise Model Central bank learning story and commitment story <i>Example:</i> U.S. Great Inflation in 1970s vs. Low Inflation in 2000s 	18
14	Revision	
15	Final Exam (2 hours)	