

# INTERMEDIATE MACROECONOMIC THEORY

PROF. RUBINA VERMA

SPRING 2016

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**Lecture:** Tuesdays and Thursdays, 2:00 p.m.–3:50 p.m.

**Location:** KAP 156

**Office Hours:** Tuesdays and Thursdays 4:15 p.m. – 5:15 p.m. and/or by appointment

**Office Location:** KAP 316A

**Email:** rubinave@usc.edu

**Professor's Website:** <http://allman.rhon.itam.mx/~rubina.verma/index.html>

**Teaching Assistant:** Junjie Xia

**Office Hours:**

**Office Location:** TA Room

**Email:** junjiexi@usc.edu

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## Course Description

This is an intermediate level course in macroeconomics. We will use a popular framework called the IS-LM model as the principal framework in this course. Using this framework, the course builds on understanding the behavior of key macroeconomic variables such as output, prices, interest rates, consumption, investment, unemployment across time. There are key assumptions which we will make throughout this course which enable us to distinguish the behavior of these economic variables across different lengths of time—namely— the short-run, medium-run and long-run. Towards the end of the course, we will spend some time studying openness in a country which will give us a comprehensive picture of macroeconomics.

The textbook for this course is *'Macroeconomics by Olivier Blanchard and David R. Johnson', 6<sup>th</sup> edition*. We will closely adhere to the textbook. Before each topic, slides will be uploaded by the instructor on *blackboard (blackboard.usc.edu)*. I prefer that you print the slides and bring them to class, if you wish to use technological devices such as Laptops or Tablets, please note that during lecture if I find you browsing the internet or doing any other tasks, you will be asked to leave the lecture and your laptop privileges will be suspended henceforth. Each class will be lecture style; at the end of the class I will have some time for questions from students. You must

also read the textbook. **Reading the text is imperative for a clear and comprehensive understanding of the material.**

In addition to lectures, there will be some review sessions held by the teaching assistant. I will announce ahead to inform you about the review sessions. In these review sessions, the TA will review the homework assignments in detail. You are strongly encouraged to visit the TA during the weekly office hours to solve any doubts or ask questions.

### **Course Tools**

We will use a combination of graphs, algebra and intuition. While the course is not very mathematical, it will involve solving numerical problems associated with important theoretical concepts. We will solve a few examples in class. Hence, a student should have a good grasp of algebraic skills.

### **Course Evaluation**

Your final course grade will be decomposed as:

Student Attendance in Lecture	5 %
Midterm Exam (Higher grade of two exams)	30 %
Homework assignments	25 %
Final Exam	40 %

Student attendance and participation are highly encouraged as it promotes an environment of active learning. There will be two midterm exams and the higher of the two grades will count towards your course grade. The exams will comprise of short answered questions which could be based on theoretical concepts, numerical problems and graphical analysis based on the textbook chapters studied. The final exam will be cumulative.

### **Exam Makeup Policy**

Since there are two midterms, there is no make-up for these exams as only the higher of the two grades will be considered. The final exam can be made up only on the basis of a serious illness, not simply a note saying you consulted a doctor on the day of the exam. If a student knows in

advance of a necessary absence from an exam, it may be possible to arrange to take the exam in advance if sufficient advance notice and the instructor's permission are given.

### **Homework Assignments and Grading**

There will be 6 homework assignments in the semester. Each homework assignment will comprise of questions from two-three topics. These homework assignments should be individually attempted and turned in by the due date. The TA will discuss the answers to the assignment questions in the review sessions; Attendance in the review sessions is highly encouraged. **There are no make-ups of assignments; a missing assignment results in a grade on that assignment of zero and there is a zero tolerance policy towards late assignments. Contacting the Professor/TA later with excuses or sending pictures of Homework assignments via email will not be accepted as submitting a homework.**

### **Disabilities**

Students requesting academic accommodations based on a disability are required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP when adequate documentation is filed. Please be sure that this letter is delivered to me as early in the semester as possible and if possible before the first assignment is due to be submitted.

### **Academic Conduct**

Plagiarism – presenting someone else's ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Section 11, Behavior Violating University Standards <https://scampus.usc.edu/1100-behavior-violating-university-standards-and-appropriate-sanctions/>. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, <http://policy.usc.edu/scientific-misconduct/>.

Discrimination, sexual assault, and harassment are not tolerated by the university. You are encouraged to report any incidents to the *Office of Equity and Diversity* <http://equity.usc.edu/> or to the *Department of Public Safety* <http://capsnet.usc.edu/department/department-public-safety/online-forms/contact-us>. This is important for the safety whole USC community. Another

member of the university community – such as a friend, classmate, advisor, or faculty member – can help initiate the report, or can initiate the report on behalf of another person. *The Center for Women and Men* <http://www.usc.edu/student-affairs/cwm/> provides 24/7 confidential support, and the sexual assault resource center webpage [sarc@usc.edu](mailto:sarc@usc.edu) describes reporting options and other resources.

### **Support Systems**

A number of USC's schools provide support for students who need help with scholarly writing. Check with your advisor or program staff to find out more. Students whose primary language is not English should check with the *American Language Institute* <http://dornsife.usc.edu/ali>, which sponsors courses and workshops specifically for international graduate students. *The Office of Disability Services and Programs* [http://sait.usc.edu/academicsupport/centerprograms/dsp/home\\_index.html](http://sait.usc.edu/academicsupport/centerprograms/dsp/home_index.html) provides certification for students with disabilities and helps arrange the relevant accommodations. If an officially declared emergency makes travel to campus infeasible, *USC Emergency Information* <http://emergency.usc.edu/> will provide safety and other updates, including ways in which instruction will be continued by means of blackboard, teleconferencing, and other technology.

### **Course Content**

Throughout the course we will discuss the following topics:

## **I. INTRODUCTION**

- Introduction/ Review of Key Concepts: Chapter 2

## **II. CORE THEORY: "SHORT RUN"**

- The Goods Market: Chapter 3
- Financial Markets: Chapter 4
- Goods and Financial Markets: The IS-LM Model: Chapter 5

## **III. MEDIUM RUN FRAMEWORK**

- The Labor Market: Chapter 6
- Goods, Financial and Labor Markets Combined in AS-AD Model: Chapter 7
- Natural Rate of Unemployment and the Phillips Curve: Chapter 8

**FIRST MIDTERM EXAM – (THURSDAY, FEBRUARY 18<sup>TH</sup>, 2016)**

## **IV. APPLICATION: THE 2008 CRISIS**

- The Crisis: Chapter 9

## **V. LONG RUN ANALYSIS**

- Growth Facts: Chapter 10
- Saving, Capital Formation and Output: Chapter 11
- Technological Change and Growth: Chapters 12, 13

**SECOND MIDTERM EXAM – (THURSDAY, MARCH 24<sup>TH</sup>, 2016)**

## **VI. THE OPEN ECONOMY (WEEKS 11, 12, 13, 14 & 15)**

- Openness in Financial and Goods Markets: Chapter 18
- An Open Economy Version of the Goods Market Model: Chapter 19
- Output, Interest Rate, and the Exchange Rate: Chapter 20
- Exchange Rate Regimes: Chapter 21

**FINAL EXAM (THURSDAY, MAY 5<sup>TH</sup> 2016, 2-4 PM)**