B.E. International Program

Faculty of Economics, Thammasat University

Course Syllabus

EE 312 MACROECONOMIC THEORY (Sect 046401)

Semester 1/2018 (August 14 – December 3, 2018)

Number of credits: 3 credits (3-0-6)

Lecture Time: Wednesday and Friday, 11.00 – 13.00 hours

Lecture Venue: Room 302, Faculty of Economics building

Instructor: Dr. Kittichai Saelee

Office: Room 516, 5th Floor, Faculty of Economics

Email: kittichai_lee@econ.tu.ac.th

Office hours: Friday, between 14.30 – 16.00.*

*Students are required to book an appointment via my Google calendar. The link is as follow, https://goo.gl/fgydUR. To access the link, student must sign up using the Gmail account provided by the faculty of economics. To acquire and activate your account, please log-on to http://www.checkmail.econ.tu.ac.th/

Course Description

The model of joint equilibrium in product markets, money markets, and foreign exchange markets (the IS-LM-BP model); changes in equilibrium; product markets and labor markets; the model of aggregate supply and demand in closed and open economies; inflation, unemployment, and the Phillips curve; economic stabilization policies; growth theory, new Keynesian economic theory; the real business cycle theory; applications of Macroeconomic theory to analyze economic situations.

Prerequisites: a) EE211 and EE212 **or** b) EE213 and EE214

Objective of the Course

To provide students with an understanding of macroeconomic theory and its analytical approach to economic system, as well as an ability to apply macroeconomic theory to economic problems and policies.

Evaluation:

Assignments	10	points	
Quiz	10	points	(Drop the lowest one out.)
Mid-term exam	40	points	
Final exam	40	points	
Total	**100**	points	

Mid-term exam date: Wednesday 3 October 2018
Time: 12.00 – 14.00 hrs

Final exam date: Tuesday 4 December 2018
Time: 13:30 - 16:30 hrs

Important dates:

- First semester begins — August 14, 2018
- Period of withdrawal without "W" — August 14 - 27, 2018
- **Mid-Term Examination Period — October 1 - 6, 2018**

(Wednesday, October 3, 2018, 12.00 – 14.00 hrs

- Course withdrawal with "W" — October 1 - 6, 2018
- Chulalongkorn Memorial Day — October 23, 2018
- Last day of class — December 3, 2018
- **Final Examination Period — December 4, 6-9, 11-20, 2018**

(Tuesday, December 4, 2018, 13.30 – 16.30 hrs.)

Textbooks:

- Blanchard Olivier. Macroeconomics. Pearson Education, 2017 (B.)
- Froyen Richard. Macroeconomics: Theories and Policies. 10th edition. Pearson Education Limited, 2013. (F.)
- Williamson Stephen D. Williamson. Macroeconomics. 5th edition. Pearson Education Limited, 2017. (W.)

Lecture Outline:

Topics	Reading
Part I: Introduction and measuring macroeconomy (4 hours)	
1. Overview and introduction (2 hours) 1.1. Class logistic information 1.2. The subject of macroeconomics: what we aim in this course? 1.3. Issues in macroeconomics: economic growth *and* business cycles 1.4. Where we are headed 1.5. Approach to macroeconomic studies	*W. Ch. 1-3 (F. Ch. 1-2)
2. Measuring macroeconomy and business cycles (2 hours) 2.1 Why do we need macroeconomic data? 2.2 The Gross Domestic product 2.2.1 Aggregate quantity and GDP measurement 2.2.2 Nominal GDP, Real GDP and GDP deflator 2.2.3 Measuring real GDP: measurements and problems 2.3 Consumer price index 2.3.1 Cost of living and Consumer price index 2.3.2 Consumer price index and GDP deflator 2.3.3 Problems in the measurement 2.3.4 Index theory 2.4 Unemployment and wage 2.4.1 Demographic structure and Population 2.4.2 Working age population and labour force 2.4.3 Measuring unemployment rate and Wage 2.5 Growth and Business cycles measurement 2.5.1 Trend v.s. Cycles 2.5.2 Business cycles regularities 2.5.3 Characterizing the cyclical properties of macroeconomic variables. 2.5.4 What do we aim to accomplish in business cycles studies?	Activities: Assignment 1 Self-test evaluation
Part II Business cycles and Economics fluctuations: short-term analysis (12 hours)	
3. A closed-economy macroeconomic model: Keynesian IS-LM-AD-AS model (4 hours) 3.1. Keynesian paradigm to the determination of macroeconomic equilibrium and fluctuations 3.2. Keynesian AD-AS model 3.2.1 IS-LM model and aggregate demand curve 3.2.2 Labour market activities and aggregate supply 3.3. Equilibrium analysis	*F. Ch. 5 – 8 (B. Ch. 3 – 5) Activities: Assignment 2 / Quiz 1

Topics	Reading
3.3.1 Demand and supply shock 3.3.2 Shock and propagation mechanism 3.4. Fiscal and monetary policy analysis 3.5 How does the Keynesian AD-AS model fit the facts?	
4. Open economy macroeconomics (8 hours) 4.1. Globally connected economy 4.1.1 Current account 4.1.2 Capital account 4.1.3 Balance of payments account 4.2. Foreign exchange market 4.2.1 Exchange rate determination: Long-run PPP approach 4.2.2 Exchange rate determination: Short-run approach a) Demand and Supply for foreign currency b) Equilibrium exchange rate and Balance of payments 4.2.3 Exchange rate regimes a) Flexible exchange rate b) Fixed exchange rate and Interventions 4.3. An open-economy macroeconomics model: IS-LM-BP framework 4.3.1 Open-economy IS curve 4.3.2 Open-economy LM curve 4.3.3 The balance of payment curve (BP curve) 4.4. Equilibrium analysis and disequilibrium adjustments 4.4.1 Disequilibrium adjustments under flexible exchange rate 4.4.2 Disequilibrium adjustments under fixed exchange rate 4.5. Macroeconomic shock and propagation mechanism 4.5.1 Origin of the fluctuations 4.5.2 Equilibrium adjustment under different exchange rate regimes 4.5.3 The case of flexible exchange rate regime 4.6. Macroeconomic policies under a small opened economy 4.6.1 Macroeconomic imbalances and policy corrections 4.6.2 Policy effectiveness 4.6.3 The Impossibility trinity theorem	*F. Ch. 14 – Ch. 15 (B. Ch 17 – 20) Activities: Assignment 3 Assignment 4 / Quiz 2
Part III ***Business cycles and Economics fluctuations: Medium-term analysis (8 hours)***	
5. Labour market, wage and unemployment (4 hours) 5.1 Labour market structure 5.2 A Simple model of labour macroeconomics 5.2.1 Wage determination 5.2.2 Price determination 5.3 Natural rate of unemployment and potential output	B. Ch. 7 Activities: Assignment 5

Topics	Reading
6. Phillips curve, inflation and natural rate of unemployment I (4 hours) 6.1 History of Phillips curve and Keynesian interpretations 6.2 Medium-term adjustment theory 6.2.1 Monetarist-based interpretation a) The mutation of Phillips curve b) Inflation expectation and theory of accelerating inflation rate c) Rational expectation and self-correcting mechanism d) Rational expectation and policy ineffectiveness 6.2.2 New-Keynesian based interpretation a) Nominal frictions b) Wage rigidities c) Insider-Outsider model d) Coordination failure	*B. Ch 8 – Ch. 9 F. Ch 11 – Ch. 12
Mid-term exam date: Wednesday 3 October 2018 **Time: 12.00 – 14.00 hrs**	

Topics	Reading
Part III Long-term economic growth (8 hours)	
7. Long-term Economic Growth (8 hours) 7.1 Long-term growth stylized-facts 7.2 Solow growth model 7.3 Growth accounting 7.4 Income disparity among countries 7.5 Endogenous growth model 7.6 Development policies	W, Ch.7, 8. Activities: Assignment 6
Part IV Micro-founded macroeconomic approach (24 hours)	
8. A Closed-Economy One-Period Macroeconomic Model (10 hours) 8.1. Circular flow of macroeconomy and General equilibrium macroeconomy 8.2. Optimizing-agent decision 8.2.1. Households a) Preferences over consumption and leisure b) Choice set and constraint c) Work-leisure decision and labor supply 8.2.2. Firms a) Production and technology b) Profit maximization problem and labour demand 8.3. Competitive equilibrium and Pareto optimality 8.3.1. Government and tax 8.3.2. Equilibrium 8.3.3. Pareto optimality 8.4. Model applications 8.4.1. Changes in government spending 8.4.2. Changes in total factor productivity 8.5. How well does the model fit the data?	W, Ch. 4. – Ch. 5 Activities: Assignment 7 / Quiz 3
9. Two-Period Model: the Consumption-Savings Decision (6 hours) 9.1. Credit market and allocation over time 9.2. Preference over life-time consumption 9.3.1 Intertemporal life-time consumption problem 9.3.2 Behaviour of current consumption and its determinants a) Effect of interest rate on consumption and saving behaviour b) Effect of permanent and temporary increases in income. 9.3. Government sector and competitive equilibrium 9.4. The Ricardian Equivalence Theorem	W, Ch. 10. Activities: Assignment 8 / Quiz 4

Topics	Reading
10. A Real Intertemporal Model with Investment (8 hours) 10.1 Circular flow of a production economy over time 10.2 Optimizing-agent decision under intertemporal environment 10.2.1 Consumer's problem a) Current labour supply b) Demand for consumption goods 10.2.2 Consumer's problem a) Current labour demand b) Investment decision 10.3 Competitive equilibrium 10.4 Model applications 10.4.1 Changes in government spending 10.4.2 Change in capital stock 10.4.3 Change in total factor productivity	W, Ch.11. Activities Assignment 9 / Quiz 5
Final exam date: Tuesday 4 December 2018 **Time: 13:30 - 16:30 hrs**	