

PRINCETON UNIVERSITY  
DEPARTMENT OF ECONOMICS

ECO 301, Macroeconomics  
Fall 2020

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**Instructor:** Iqbal Zaidi

**Time:** Tuesdays and Thursdays, 3:00-4:20 pm, ZOOM

**Contact:** [izaidi@princeton.edu](mailto:izaidi@princeton.edu)

**Office Hours:** Thursdays, 4:00-5:00 pm, ZOOM

**Preceptor:** Jose Luis Cruz Alvarez, [jlca@princeton.edu](mailto:jlca@princeton.edu);

**Precepts:** Tuesday, 10:00-10:50 am and Wednesday, TBD, ZOOM

**Overview:** This course covers the theory of modern macroeconomics. We will focus on determination of macroeconomic variables—such as output, employment, inflation, and interest rates—in the short run and long run. We will apply the frameworks to discuss policy issues and examples of macroeconomic phenomena in real world. A central theme will be to understand the power and limitations of macroeconomic policy in stabilizing the business cycle and promoting growth.

**Textbook:** Macroeconomics, 9th edition, by Andrew Abel, Ben Bernanke, and Dean Croushore (ABC). If you obtain an old edition, you are responsible for checking with the 9th edition (from a friend) to make sure you do the correct homework problems. The articles will be available electronically on Blackboard.

**Prerequisites:** ECO 100 and ECO 101. Although you can take this course without taking ECO100 and 101, you are expected to be familiar with introductory calculus and introductory micro and macroeconomics.

**Grading Policy:** Your grade will be determined as follows: midterm 30%, final exam 50%, and homework 20%. There will be a midterm and a final exam, and we will discuss the administrative details in class. All exams are closed book and closed note. Make-up exams will not be offered. Request for re-grading exams must be made within one week of the day exams are returned. Please be aware that your points and grade could go down during the regrading process.

**Homework:** Completing problem sets, while only 20% of your grade, is fundamental for your success in this course. You may work in groups of up to three. However, you must write up and turn in your own problem set. If you do work in a group, please list the other group members. Problem sets will be posted on Blackboard and must be turned in at the beginning of class. Late problem sets will not be accepted without a valid excuse.

There will be six problem sets. I will drop the one with the lowest score when calculating your grade. The preceptor is responsible for the problem sets and their grading. Therefore, all questions related to the problem sets should be submitted to him.

# 1 Course Outline

Articles with (\*) are more technical and you do not have to follow all the equations. The materials of the latter half may change; I will notify you if any changes are made. The latest version of this syllabus can be found on Blackboard.

1. Overview, Measurement, and Structure of the National Economy
  - Chapters 1 and 2 of Abel, Bernanke, and Croushore (ABC).
2. Long-Run Economic Performance
  - (a) A One-Period Model of the Macroeconomy
    - Chapter 3 of (ABC).
  - (b) Two-Period Closed Economy
    - Chapter 4 of (ABC).
  - (c) Two-Period Open Economy
    - Chapter 5 of (ABC).
    - Eichengreen, Barry, “Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor and the Standard Analysis,” *Journal of Policy Modeling* 28 (2006), pp. 645 – 652.
    - Feldstein, Martin, “Resolving the Global Imbalance: The Dollar and the U.S. Saving Rate,” *Journal of Economic Perspectives*, 2008, Vol. 22, Issue 3, pp. 113 – 25.
    - Summers, Lawrence, “The US Current Account Deficit and the Global Economy,” *Per Jacobsson Lecture*, Harvard University, October 2004.
  - (d) Economic Growth
    - Chapter 6 of (ABC).
  - (e) Asset Market, Money, and Prices
    - Chapter 7 of (ABC).
3. Business Cycles
  - (a) Business Cycle Observations
    - Chapter 8 of (ABC).
  - (b) The IS-LM/AD-AS Model
    - Chapter 9 of (ABC).
    - Romer, David, “Keynesian Macroeconomics without the LM Curve,” *Journal of Economic Perspectives* (2000) Vol. 14, No. 2, Spring, pp. 149-169.
  - (c) Classical Business Cycle Analysis
    - Chapter 10 of (ABC).
    - (\*) Edward Prescott. “Theory Ahead of Business Cycle Measurement,” *Federal Reserve Bank of Minneapolis Quarterly Review*, (Fall 1986): pp. 9-22.
    - Sims, Christopher A. 1996, “Macroeconomics and Methodology”, *Journal of Economic Perspectives* 10(1), pp. 105-120.

(d) Keynesianism: The Macroeconomics of Wage and Price Rigidity

- Chapter 11 of (ABC).

4. Macroeconomic Policy

(a) Unemployment and Inflation

- Chapter 12 of (ABC).
- Blanchard, Olivier, "The State of Macro," *Annual Review of Economics*, (2009) 1, pp. 209-28.
- \*Blinder, Alan, "What Central Bankers Could Learn from Academics – and Vice Versa," *Journal of Economic Perspectives* (1997) Vol.11, No. 2, Spring, pp. 3-19.

(b) Exchange Rates, Business Cycles, and Macroeconomic Policy in the Open Economy.

- Chapter 13 of (ABC).

(c) Monetary Policy and the Federal Reserve System

- Chapter 14 of (ABC).

(d) Government Spending and its Financing

- Chapter 15 of (ABC).
- Thomas Sargent and Neil Wallace. "Some Unpleasant Monetarist Arithmetic," *Quarterly Review*, Federal Reserve Bank of Minneapolis (Fall 1981): pp. 1-7.