

ECONOMICS 704: Macroeconomic Analysis II (First Part)
Spring 2009

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Classes: T Th 9:30am to 10:45am in 112 Ani Sci

Office Hours: W 2:30 to 5:00pm

About the course: This course will be team-taught by Professor Harvey Cutler and myself. I will teach the first part of the course (the first 8 weeks of the semester) and the second part will be taught by Professor Cutler.

First Part of the Course: The first part of the course will provide a detailed introduction to Dynamic Stochastic General Equilibrium (DSGE) modelling, the current consensus methodology in mainstream macroeconomics. Using DSGE modelling techniques, the course will introduce students to the New Keynesian framework for macroeconomic, especially monetary, analysis and policy evaluation.

In the writings of the early Real Business Cycle (RBC) theorists, DSGE modelling replaced the traditional Keynesian method of working with aggregate economic relations. The RBC literature challenged all the major Keynesian propositions, especially the proposition that monetary policy (or any policy for that matter) can be effective in dampening business cycle fluctuations. New Keynesian theorists have pointed out and demonstrated that the RBC conclusions derived more from their assumptions about competitive markets and flexible prices than from the DSGE modelling techniques. Introducing monopolistic competition and sticky prices in standard DSGE models, the New Keynesian framework manages to salvage *some* of the conclusions of the older Keynesian analysis.

Since one of the primary foci of the course is to help students master the tools and techniques used in modern macroeconomic research, there will be a *heavy emphasis on solving problems*. The best way to master the material, in my opinion, is to actively solve problems and constantly ask questions.

Textbook: The following textbook will be used for the second part of the course: *Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework*, by Jordi Gali, 2008 [Publisher: Princeton University Press].

Exams: For this part of the course, there will be two take-home assignments and a midterm exam.

1. first *take-home* assignment: will be handed out in class on February 03; due in class on February 10
2. second *take-home* assignment: will be handed out in class on February 26; due in class on March 03
3. in-class *open book and open notes* midterm exam: **March 12.**

The time, venue and duration of the midterm exam will be announced in class. *The course will also have a joint final exam (during finals week); details of the final exam will be provided in class.*

Course Material: Some of the material pertaining to the course like the syllabus, lectures slides, important announcements, practice exercises, hand-outs, practice exams, etc. will be available on RamCT. Please note that students are responsible for everything that is discussed in class, even if that has not been posted on the course webpage.

Academic Misconduct: Academic misconduct like cheating, plagiarism, etc., will be taken very seriously in this course, and can lead to an overall F grade. For more details about university policies relating to academic misconduct see <http://www.catalog.colostate.edu/front/policies.aspx>

Accommodation for Disability: Reasonable requests for accommodation to disabilities will be entertained. However, students are responsible for requesting accommodations in a timely manner and must first be recognized as eligible for the accommodation through Resources for Disabled Students (RDS). For more information see <http://rds.colostate.edu/index.asp>

Grading:

Overall: The total points in this course are 300. The first part of the course will have 100 points; the second part will have 100; and *there will be a joint final exam (during finals weeks) for 100 points.*

First Part: Out of a total of 100 points for the first part of the course, the midterm exam will count for 60 points, and each take-home assignment for 20 points. Missing the exam or the assignments will automatically get you zero points on that part of the course unless you have a valid medical excuse along with written proof of the same, in which case your scores will be adjusted accordingly.

Tentative schedule: The tentative schedule for lectures for the first part of the course is as follows:

- **Week 1-2:** Introduction (Chapter 1 of the textbook) and Mathematical Preliminaries.
- **Week 3-4:** A Classical Monetary Model (Chapter 2 of the textbook): While building a very basic RBC-type model, in this part of the course, we will familiarize ourselves with most of the tools and techniques required for understanding the basic New Keynesian framework; these will include dynamic programming, log-linearization, first-order stochastic difference equations, etc.
- **Week 5-7:** The Basic New Keynesian Model (Chapter 3 of the textbook): Here we will modify the classical monetary model to include monopolistic competition and sticky prices; this re-worked model will be shown to be empirically much more relevant than the classical monetary model.
- **Week 8:** Some Special Topics (either Chapter 4 of the textbook on monetary policy design in the New Keynesian framework or some other material from the post-Keynesian tradition).