

**Econ 2213 - Fall 2023 - Intermediate Macroeconomic Theory I**  
**BAC 424 - 10:30-11:20am MWF**

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**Instructor:** Andrew Davis, [andrew.davis@acadiau.ca](mailto:andrew.davis@acadiau.ca)

**Office Hours:** 9:30am-11am, Tuesdays and Thursdays, or by appointment, BAC 339.

**Prerequisite:** ECON 1013 and 1023 with a grade of C- or better. While Math 1613 is not a prereq and this course will try to avoid calculus as much as possible (though not completely), math will be used regularly and hence a math course is preferred. I will also introduce a little simulation and programming at one or two points, but a CS course is not required either.

**Course Description:** “Theories of economic growth including consideration of labour, capital, and technology. The empirics of economic growth. Neoclassical and New Keynesian business cycle models, their implications for fiscal and monetary policy, and the zero lower bound. The course focuses on rigorous model-building based on an understanding of how data disciplines economic models, and introduces students to numerical simulation.”

**Textbook:** Garin, Lester, and Sims (GLS). Intermediate Macroeconomics, [https://juliogarin.com/files/textbook/GLS\\_Intermediate\\_Macro.pdf](https://juliogarin.com/files/textbook/GLS_Intermediate_Macro.pdf). This is a free ebook - and probably the best textbook out there. It can look slightly challenging at points, but we’ll work through it. I will follow it closely and highly recommend it. You can also consider Harford, *The Undercover Economist Strikes Back*. This is a very optional, very easy book that paints many of the ideas in the course in a very accessible way. It could help with the big picture, but is not going to help much with assignments/tests/exams. Consider reading it if you forget most of ECON 1023 and want an introduction to the ideas of the course.

**Topics Covered:** This serves as a rough plan of attack for the course. Progression will be determined in part by student interest and discussion. Parts of this will review material from ECON 1023, and we’ll move faster in those areas. I realize this looks like a lot of chapters, but that owes something to the nature of the textbook. For example, Ch.19 covers no new material, it simply does a bunch of examples applying the model of Ch.18.

Why should you care about these topics? An answer requires some discussion of the goals of the intermediate macroeconomics sequence, which I view as follows in order of priority.

- To provide tools and frameworks to understand the economic world. In particular, this means the ability to understand and apply tractable economic models. In the context of this course, that means a model of long-run growth, and two models of business cycles with different takes on how our economy actually works. We want to develop the ability to make economic arguments based on a series of logical steps, not just on intuition or rhetoric. This also doesn’t mean that models are perfect, but understanding models is a step towards being able to understand the limitations of models.

- To provide necessary preparation for surviving an elite graduate program, particularly in terms of mathematics and models. This is mostly a function of the second half of macro theory. It also doesn't mean this is going to be all math, but if you choose to continue with graduate studies after Acadia, you should be well prepared.
- To familiarize students with economic data. It is important to have an intuitive grasp for what the actual macroeconomic world looks like. We'll look at and hopefully discuss lots of data in this course. It won't all stick, but macroeconomics isn't an abstract discipline and data is crucial.
- To familiarize students with the history of macroeconomic thought. We'll never get too formal about history of thought, but there are some bits and pieces you should pick up along the way.

Text (GLS)	Topic	Week
Ch. 1-3	Review and Introduction	1
Ch. 4-7	Empirics of long-run growth and the Solow model	2-4
*	Notes on endogenous growth and natural resources	5
Ch. 18-20	A neoclassical model of business cycles	6-7
Ch. 20-22	Limitations and implications of the neoclassical model	8
Ch. 24-27	A New Keynesian model of business cycles	9-11
Ch. 28-29	ZLB and monetary policy in the New Keynesian model	12
*	other topics if time permits (e.g. finance in a macro model?)	

Roughly speaking, we can divide the course into two parts: understanding the long-run wealth of different societies, and understanding business cycles and business cycle policy.

Why does long run growth matter? “Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia’s or Egypt’s? If so, what exactly? If not, what is it about the ‘nature of India’ that makes it so? The consequences for human welfare involved in questions like these are simply staggering: once one starts to think about them, it is hard to think about anything else.” Robert E. Lucas, “On the Mechanics of Economic Development”, *Journal of Monetary Economics*, July 1988.

Lucas won the Nobel in economics in 1995 for his work on macroeconomics, and his quote reflects the paramount importance of understanding the wealth of nations. Why are some countries rich? Why are some countries not rich? Can we understand why, let alone do anything about it? How should we think about the role of capital, workers, and technology in understanding living standards?

In the Solow model that we'll spend almost a month covering, we'll delve into how these factors of production influence standards of living, and how countries accumulate these things. This will speak to national policies around innovation, saving, taxes, and immigration. We'll also consider a wealth of data on the empirical issues surrounding growth. Why has East Asia grown quickly? Do natural resources matter? Is stagnation setting in?

Why do business cycles matter? "In the long run we are all dead." John M. Keynes, *A Tract on Monetary Reform*, 1923.

The American financial crisis is now a full thirteen years behind us, and COVID fiscal responses shattered the fiscal stimulus records set then. Keynes revolutionized macroeconomics to the point where 'Keynesian' remains a common phrase in newspapers as we talk about the crisis and subsequent recovery even today, typically associated with the idea that government should spend more in recessions to stabilize the economy. Is this true? What are the costs and benefits? Why do recessions and crises happen? How are central banks involved? Can we prevent or cure recessions and keep millions from painful unemployment?

First, we'll look at a model of the macroeconomy without "frictions". Here, that just means that prices adjust so markets clear, particularly the big macro markets for goods and labour. But we have a sneaking suspicion that maybe the economy doesn't actually operate quite that smoothly. That leads us to a "short-run" model of the macroeconomy where prices and/or wages (we'll consider both variants) take time to adjust, and that means over relatively short time horizons that the big macro markets will fail to clear. Within these contexts, we'll talk deeply about fiscal and monetary policy, the zero lower bound, the Great Depression and the financial crisis - and more.

### **Grading:**

- Problem Sets: 12% (typically six, groups of up to 3 are fine, if extra will drop lowest)
- Short Responses: 8% (two brief essays capped at 500 words, individually done)
- Test 1: 20%
- Test 2: 20%
- Final: 40%
- Class Participation: 3% (bonus, attendance is not participation)

Late assignments not accepted unless cleared in advance. Missed assignments or tests will have their weight added to the final exam automatically. At the end of the course, if it's to your advantage, the weight of your lowest midterm will be automatically shifted to the final. Further, if your grade on the final exceeds the total weighted average, you will receive the final grade directly, to a maximum of an A. An A+ requires exceptional performance through the semester, not just the final. Finally, attendance does not count as class participation - active participation only.

I view one of the key roles in a grading system as providing a clear understanding of what you've achieved and accomplished. This means both within Acadia, but also externally. The grade system below is, from my research, the most commonly adopted one in Canada, and hence what I will use

for this course.

A+: 90%+	A: 85%-89%	A-: 80%-84%
B+: 77%-79%	B: 73%-76%	B-: 70%-72%
C+: 67%-69%	C: 63%-66%	C-: 60-62%
D+: 57-59%	D: 53-56%	D-: 50-52%
F: ≤50%		

Note that I no longer report numerical grades to the registrar. Your university record will only contain a letter grade.

**Accessible Learning:** If you are a student with documentation for accommodations who anticipates needing supports or accommodations, please contact Accessible Learning: [accessible.learning@acadiau.ca](mailto:accessible.learning@acadiau.ca). Accessible Learning Services is located in Rhodes Hall, rooms 111-115.

**Academic Integrity:** Academic integrity is an important component of university education. I expect adherence to such norms.

**Technology Policy:** For those students who intend to bring and use technology in the classroom for non-academic reasons, I strongly encourage you to keep the welfare of your fellow students in mind. Academic literature studying the use of phones, tablets, and laptops in the classroom has found negative effects on students distracted by the technology of others. I reserve the right to prohibit technology when it is consistently putting costs onto others.

**Important Dates:**

- Sept. 6 - Fall courses begin.
- Sept. 15 - Last day to add/drop course sections without a W.
- Sept. 29 - Truth and Reconciliation Day observed. No classes.
- Oct. 9 - Thanksgiving Day. No classes.
- Oct. 11 - Test 1.
- Oct. 30 - Nov. 3 - Fall study break. No classes.
- Nov. 10 - Remembrance Day observed. No classes.
- Nov. 17 - Last day to drop fall courses and receive a W.
- Nov. 17 - Test 2.
- Dec. 5 - End of classes.