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ECO 712 Section I: 5:30-8:15 PM, W (CWH 230)

About the Course:

An introduction to the dynamic analysis of the aggregate economy. Topics include economic models and dynamic analysis, production and economic growth, consumption and saving, government activity and its financing, money and the price level, unemployment, and aggregate forecasting.

prerequisites: ECO 110, ECO 120

Goals

The goal of this class is to help you become a savvy and informed consumer of the economic news. In an attempt to meet these objectives we will try and strike a balance in class between economic theory, empirical evidence, and real world applications.

Course Requirements and Grading

Class Participation	100
Presentation	100
2 Papers	200
Midterm Exam	100
<u>Final Exam</u>	<u>100</u>
Total	600

Texts:

Required Readings:

Graduate Level MBA Text:

Miles, D., & Scott, A. (2005). *Macroeconomics and the Global Business Environment* (2nd ed.): John Wiley & Sons.

Background Readings: These books can be found on the internet cheaply.

Principles of Macro:

Case, K. E., & Fair, R. C. (2004). *Principles of Macroeconomics* (7th ed.). Upper Saddle River, NJ: Prentice Hall.

Intermediate Macro:

Mankiw, N. G. (2003). *Macroeconomics* (5th ed.). New York, NY: Worth Publishers.

Intermediate level Money/Macro

Mishkin, F. S. (2004). *The Economics of Money, Banking, and Financial Markets* (7th ed.). Boston: Pearson.

Tentative Topics and Readings

I. The Data

Unemployment

The latest release <http://www.bls.gov/news.release/empsit.nr0.htm>

How does the gov't measure unemployment? http://www.bls.gov/cps/cps_htgm.htm

Household versus the Establishment survey.

Required: Miles and Scott 7.1

Background: (C&F 7, Mankiw 2,6)

CPI (Inflation)

The latest release <http://www.bls.gov/news.release/cpi.nr0.htm>

How the BLS measure changes <http://stats.bls.gov/cpi/cpifact2.htm>

Required: Miles and Scott 11.1-11.3

Background: (C&F 8; Mankiw 2,4)

Optional: Boskin, Michael J., Ellen R. Dulberger, Robert J. Gordon, Zvi Griliches, and Dale W. Jorgenson, Consumer Prices, the Consumer Price index, and the Cost of Living, *Journal of Economic Perspectives* Vol. 12, No. 1, Winter 1998.

Optional: Abraham, Katharine G., John S. Greenlees, and Brent R. Moulton, (1998). Working to Improve the Consumer Price Index *Journal of Economic Perspectives* Vol. 12, No. 1, Winter 1998.

Background: Other measurement issues <http://www.bls.gov/cpi/cpihe00.htm>

Background: Shoe leather costs <http://www.stls.frb.org/publications/itv/1999/a/itv1999a1.html>

Optional: Costs of inflation <http://www.cato.org/pubs/journal/cjv14n2-8.html>

GDP

The latest release <http://bea.gov/bea/newsrel/gdpnewsrelease.htm>

A guide to the NIPA <http://bea.gov/bea/an/nipaguid.pdf>

Required: Miles and Scott Chapter 2.1-2.6

Background: (C&F 5,6; Mankiw 2)

Other Data:

Leading indicators www.tcb-indicators.org and <http://www.economic-indicators.com/>

Business cycle indicators <http://www.globalindicators.org/GeneralInfo/bci4.pdf>

Google Searches http://www.google.com/finance/domestic_trends

Optional: Carnes, W. Stansbury and Stephen D. Slifer. (1992). *The Atlas of Economic Indicators: A Visual Guide to Market Forces and the Federal Reserve*, Harperbusiness, New York.

II. The Bond market and Understanding Interest Rates

The Theory of Asset Demand

Risk

Term Structure: The Yield Curve

Required: Miles and Scott Chapter 18

Optional: Estrella, A., & Mishkin, F. S. (1996). *Predicting U.S. recessions: financial variables as leading indicators*: Federal Reserve Bank of New York, Research Paper: 9609.

Optional: <http://stlouisfed.org/publications/assets/pdf/re/1997/d/re1997d4.pdf>

Background: (C&F 8; Mankiw 2, Mishkin)

Monetary policy (Money and Banking)

What is money?

Required: Radford, R.A. "The Economic Organization of a P.O.W. Camp". *Economica*, Nov. 1945. http://www.uwlax.edu/faculty/brooks/eco120/pow_camp.htm

Required: Miles and Scott Chapter 11

Optional: Friedman, M. (1992). *Money Mischief: Episodes in Monetary History* (1st ed.). New York: Harcourt Brace Jovanovich. Pages 1-17.

Bernanke's Role

Federal Reserve System "In Plain English" <http://www.stls.frb.org/publications/pleng/>

The structure of Central Banks and the Federal Reserve System

The Conduct of Monetary Policy: Tools and Goals

Monetary Policy the International Experience

Optional: Friedman, M. (1992). *Money Mischief: Episodes in Monetary History* (1st ed.). New York: Harcourt Brace Jovanovich.

Optional: Greider, W. (1987). *Secrets of the Temple: How the Federal Reserve runs the Country*. New York: Simon and Schuster.

Optional: Woodward, B. (2000). *Maestro: Greenspan's Fed and the American Boom*. New York: Simon and Schuster.

II. Models: Macro Model Building

Keynesian Cross (Aggregate Expenditure Model)

Required: Miles and Scott Chapter 12

Consumption Theory

(C&F 10, 11; Mankiw 10)

<http://perth.uwlax.edu/faculty/brooks/macro/macropolicy/kcross/Keynesian.html>

Optional: Keynes, J. M. (1964). *The General Theory of Employment, Interest, and Money* by John Maynard Keynes (1st Harbinger ed.). New York: Harcourt Brace & World.

Exam I: October 14 in class

IS/LM model

Required: Miles and Scott Chapter 12, 15

(Mankiw 10)

Optional: Romer, David, Keynesian Macroeconomics without the LM Curve, *Journal of Economic Perspectives*, Vol. 14, No. 2, Spring 2000

Optional: http://elsa.berkeley.edu/~dromer/papers/short_run_fluc_paper.pdf

Optional: <http://cepa.newschool.edu/het/essays/keynes/hickshansen.htm>

Aggregate demand/Aggregate supply model (AD/AS)

(B&M 9; Mankiw 9, 13)

Required: Miles and Scott Chapter 14

Fiscal Policy

Info on the debt <http://www.publicdebt.treas.gov/opd/opdfaq.htm>

<http://www.fms.treas.gov/bulletin/>

Multipliers:

Optional: Siegfried, John and Andrew Zimbalist, The Economics of Sports Facilities and Their Communities, *Journal of Economic Perspectives* Vol. 14, No. 3, Summer 2000

Optional: Taylor, John B., Reassessing Discretionary Fiscal Policy, *Journal of Economic Perspectives* Vol. 14, No. 3, Summer 2000

Optional: Friedman, Milton. (1982) *Capitalism and Freedom*, Chapter 5, pp 75-84, The University of Chicago Press, Chicago.

Monetary Policy Revisited

Required: Miles and Scott Chapter 15

Expectations, Credibility Rules and Discretion

Required: Miles and Scott Chapter 16, 17

III. Business Cycles

Required: Miles and Scott Chapter 14

Diebold, F. X., & Rudebusch, G. D. (2001). Five Questions about the Business Cycles. *Federal Reserve Bank of San Francisco Economic Review*, 0(0), 1-15.

<http://www.frbsf.org/publications/economics/review/2001/article1.pdf>

Optional: Beyond shocks: What causes Business Cycles? Conference June 1998

http://www.bos.frb.org/economic/conf/conf42/Conf_42.htm

De Long, J. B. (1999). Introduction to the Symposium on Business Cycles. *Journal of Economic Perspectives*, 13(2), 19-22.

Empirical Issues and Causes of Present and Past Cycles:

Recession Dates: <http://www.nber.org/cycles/recessions.html>

Required: Temin, P. (1998). The Causes of American Business Cycles: An Essay in Economic Historiography. In J. C. Fuhrer & S. e. Schuh (Eds.), *Beyond shocks: What causes business cycles?*

Optional: Zarnowitz, V. (1999). Theory and History behind Business Cycles: Are the 1990s the Onset of a Golden Age? *Journal of Economic Perspectives*, 13(2), 69-90.

Optional: Romer, C. D. (1999). Changes in Business Cycles: Evidence and Explanations. *Journal of Economic Perspectives*, 13(2), 23-44.

Optional: Basu, S., & Taylor, A. M. (1999). Business Cycles in International Historical Perspective. *Journal of Economic Perspectives*, 13(2), 45-68.

Case Study:

The recession of 2007

<http://www.nber.org/cycles/main.html>

Multimedia: Me talking about a second stimulus.

<http://www.wpr.org/cardin/index.cfm?strDirection=Prev&dteShowDate=2009-07-15%2008:00:00>

listen here: <http://clipcast.wpr.org:8080/ramgen/wpr/jca/jca090715b.rm>

Multimedia: Scott Sumner and John Cochrane on monetary policy

<http://www.finreg21.com/channel-21/interviews/monetary-policy-discussion>

History of Ideas on the Business Cycle

<http://cepa.newschool.edu/het/essays/cycle/cyclecont.htm>

Some Modern Theories of the Cycle

AD theories

Traditional Keynesian

Monetarist

New Keynesian

AS theories

Rational Expectations

Real Business Cycles

Optional: From Cycles to Shocks: Progress in Business-Cycle Theory

<http://www.phil.frb.org/files/br/brma00sc.pdf>

VI. Special Topics:** Time Permitting

A. Exchange Rate Theory

Miles and Scott Chapter 19-21

Purchasing Power Parity

<http://pacific.commerce.ubc.ca/xr/PPP.html>

<http://www.stls.frb.org/publications/itv/1996/a/index.html>

Overvalued dollar <http://www.dismal.com/thoughts/article.asp?aid=1311>

Exchange Rate regimes http://pacific.commerce.ubc.ca/xr/currency_list.html

Currency Boards

http://www.stern.nyu.edu/globalmacro/exchange_rates/currency_boards.html

Monetary Unions

Euro <http://pacific.commerce.ubc.ca/xr/euro/>

http://europa.eu.int/index_en.htm

<http://www.econ.yale.edu/%7Ecorsetti/euro/Euroit.htm>

Dollarization

http://www.stern.nyu.edu/globalmacro/exchange_rates/dollarization.html

Case Study: GM in the 80's

Case Study: Asian Crisis?

<http://www.stern.nyu.edu/globalmacro/> Click on Asian crisis

Background: (C&F 8; Mankiw 2)

B. Forecasting:

Time Series Methods

Econometric Forecasting

C. Other Assorted Macro Topics:

NAIRU?

Social Security

The government web page <http://www.ssa.gov/>

<http://www.indiana.edu/~econed/pdffiles/fall00/Holahan.pdf>

Income Distribution and Growth?

Growth and Development Theory?

Outsourcing?

Globalization?

The rising costs of Health Care?

Exam II: December 21th 7-9pm

On the importance of studying and understanding economics...

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.... But, soon or late, it is ideas, not vested interests which are dangerous for good or evil.

- John Maynard Keynes *The General Theory*

But the honest truth is that what drives me as an economist is that economics is fun. I think I understand why so many people think that economics is a boring subject, but they are wrong. On the contrary, there is hardly anything I know that is as exciting as finding that the great events that move history, the forces that determine the destiny of empires and the fate of kings, can sometimes be explained, predicted, or even controlled by a few symbols on a printed page. We all want power, we all want success, but the ultimate reward is the simple joy of understanding.

- Paul Krugman *Princeton University*

Group work

Group work is often a mixed bag, providing both impediments to learning and opportunities that could not be created elsewhere. It is certainly challenging, but little else will prepare you for what you'll face in the "real" world. We will spend time working on improving your group skills.

In my eighth year I commenced learning Latin, in conjunction with a younger sister, to whom I taught it as I went on, and who afterwards repeated the lessons to my father; from this time, other sisters and brothers being

successively added as pupils, a considerable part of my day's work consisted of this preparatory teaching. It was a part which I greatly disliked; the more so, as I was held responsible for the lessons of my pupils, in almost as full a sense as for my own: I, however, derived from this discipline the great advantage, of learning more thoroughly and retaining more lastingly the things which I was set to teach: perhaps, too, the practice it afforded in explaining difficulties to others, may even at that age have been useful.

- John Stuart Mill, *Autobiography*

The Fine Print:

CBA Mission Statement

The College of Business Administration is dedicated to the personal and professional development of its students. The college's programs provide our undergraduate and graduate students with an integrated business education preparing them for successful professional careers. Our graduates will be effective problem solvers, ethical decision-makers, and life-long learners in an ever-changing, diverse world environment

A note from Disability Resource Services

Any student with a documented disability (e.g., physical, learning, psychiatric, vision, or hearing, etc.) who needs to arrange reasonable accommodations must contact the instructor and the Disability Resource Services office (165 Murphy Library) at the beginning of the semester. Students who are currently using the Disability Resource Services office will have a copy of a contract that verifies they are qualified students with disabilities who have documentation on file in the Disability Resource Services office.

UWS 14.01 STATEMENT OF PRINCIPLES: The Board of Regents, administrators, faculty, academic staff, and students of the University of Wisconsin system believe that academic honesty and integrity are fundamental to the mission of higher education and of the University of Wisconsin System. The University has a responsibility to promote academic honesty and integrity and to develop procedures to deal effectively with instances of academic dishonesty. Students are responsible for the honest completion and representation of their work, **for the appropriate citation of sources**, and for respect of others' academic endeavors. Students who violate these standards must be confronted and must accept the consequences of their actions.

<http://www.uwlax.edu/StudentLife/uws14.html>

“UWS 14.03 ACADEMIC MISCONDUCT SUBJECT TO DISCIPLINARY ACTION.

(I) Academic misconduct is an act in which a student:

- (a) Seeks to claim credit for the work or efforts of another without authorization or citation;
- (b) Uses unauthorized materials or fabricated data in any academic exercise;
- (c) Forges or falsifies academic documents or records;
- (d) Intentionally impedes or damages the academic work of others;
- (e) Engages in conduct aimed at making false representation of a student's academic performance; or
- (f) Assists other students in any of these acts.