

THE UNIVERSITY OF ILLINOIS AT CHICAGO
ECON 221: MACROECONOMICS IN THE WORLD ECONOMY
AUTUMN 2008

Prof. George Karras
UH 2104 (996-2321)
e-mail: gkarras@uic.edu
Web Page: <http://www.uic.edu/~gkarras>

Office Hours:
Tue, 1:00-2:00
and by appointment

Required Text:

A.B.Abel, B.S.Bernanke, & D.Croushore, *Macroeconomics*, 6th edition, 2008, Addison-Wesley.

Overview:

The principal aim of this course is to introduce the student to Macroeconomics and International Economics at the intermediate level. By the end of the quarter you must be familiar with how the macroeconomy works, the mechanisms of business cycles and long-run growth, how (and when) macroeconomic fiscal and monetary policy should be conducted, and how international transactions affect the economy. You will also be exposed to current issues of interest and research in macroeconomics.

The basis for this course is a combination of the required textbook and the class notes. Regarding the exams, you will be responsible for everything covered in the lectures. Should you miss a lecture, try to borrow a colleague's notes; usually, however, this is a poor substitute. You must also make sure that you have all the handouts distributed in class.

Grading Procedure:

A midterm (M , 30 points), a comprehensive final (F , 40 points), two homework sets ($H1$ and $H2$, 10 points each) and a Country Project (P , 10 points) will be given. Your score will be based on the following simple algorithm:

If $F + P \neq H1 + M + H2$ then $SCORE = H1 + M + H2 + F + P$, but
if $F + P > H1 + M + H2$ then $SCORE = 2(F + P)$.

Therefore, students who demonstrate improvement will have their midterm and homework scores discarded and their grade will be based on the final and project scores only. This means that you can only gain by taking the midterm and turning in the homeworks. However, *all* students must take the final exam and the country project.

No make-up exams will be offered -- the only exception being a documented medical problem.

To summarize:	<u>Assignment</u>	<u>Points</u>
	Homework 1	10
	Midterm	30
	Homework 2	10
	Country Project	10
	Final	<u>40</u>
	TOTAL	100

Broad Outline:

I. INTRODUCTION (Chapters 1 and 2)

1. Macroeconomic Questions
2. Measurement Issues

II. THE LONG-RUN: FULL EMPLOYMENT & GROWTH (Chapters 3-7)

3. The Production Function and the Labor Market

{Homework 1}

4. Saving and Investment
5. The Open Economy
6. Long-Run Growth Theory

{Midterm}

7. Money and Prices

III. THE SHORT-RUN: BUSINESS CYCLES & STABILIZATION POLICY (Chapters 9-11, 13)

8. The Facts
9. The IS-LM Model
10. Classical Analysis
11. Keynesian Analysis

{Homework 2}

13. Exchange Rates and the IS-LM in the Open Economy

IV. MACROECONOMIC POLICY: A CLOSER LOOK (Chapters 12, 14, and 15)

12. Unemployment versus Inflation
14. Money Supply and the Federal Reserve System
15. The Government Budget, Deficits, and Debt

{Final Exam}

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Country Project

The Country Project consists of two parts: (i) Data Analysis and (ii) Policy Recommendation.

Data Analysis

1. You will use data from the IMF's *World Economic Outlook* (WEO) database. The latest edition is April 2008. To access the dataset, go to

<http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/weoselgr.aspx>

Alternatively, follow the path:

IMF web page (www.imf.org) ∨ Data and Statistics ∨

World Economic Outlook database for April 2008 ∨

Download WEO data: By countries (country-level data)

2. Select one of the “Advanced Economies” and one of the “Emerging and Developing Economies”. Collect available data series for the 5-year period 2003-2007. Analyze the data focusing on the presentation of major macroeconomic variables: real GDP growth, inflation, unemployment, government budget, current account, etc.

Policy Recommendation

1. Identify one macroeconomic problem that you think is the most pressing (i.e., low growth, high inflation, a large deficit, etc).

2. Suggest fiscal or monetary policies that can address this problem. Use the IS/LM/FE and/or the AD/AS models to derive the effects of these policies on the identified problem and on the rest of the macroeconomy.