

**Economics 365**  
**Business, Government, and Macroeconomic Policy**

Lehigh University  
Prof. Irina Panovska

**Instructor's Contact Information:**

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**Course Information:**

Eco 365

Fall 2017

LL 511 MW 2:35-3:50pm

**Course Description**

Economics 365 is an advanced macroeconomics class, intended to provide a thorough knowledge of modern macroeconomic theories explaining business cycle fluctuations and their implications for fiscal and monetary policy.

**Course Objectives**

This class has four broad objectives.

1. First, we will examine, in detail, several approaches to understanding macroeconomic fluctuations.
2. We will use formal macroeconomic models to analyze current events. In particular, during the Fall 2017 semester we will emphasize concepts and policy that relate to the aftermath of the "Great Recession", such as secular stagnation, slow growth in wages, austerity measures, and monetary policy normalization. We will spend the last few weeks of the semester focusing on case studies related to recent fiscal and monetary policy proposals.
3. Students will improve their ability to analyze historic macroeconomic data and evaluate the plausibility of different theoretical models.
4. Students will improve their ability to communicate their ideas with various audiences

**Prerequisites**

Eco 119 & Eco 29 or Permission  
Junior, Senior, or Graduate

This course builds upon the foundation laid in Eco 029 and Eco 119, and students will be expected to be familiar with the basic macroeconomics concepts and definitions. We will be using mathematics and statistics and I expect you to be comfortable with basic mathematical and statistical concepts. However, don't let this scare you: this is not a mathematics class. It is an economics class that uses mathematical and statistical tools to look at economic concepts. Similarly, some assignments will also include basic data

analysis using Excel, but it is not a statistics class. You should be able to algebraically manipulate equations, solve linear equations, and calculate slopes of polynomial functions. I will review any additional concepts in class as needed. You may find it beneficial to review basic calculus concepts such as differentiation, and you should also review how to do basic data manipulation in excel (downloading and importing data, finding averages, finding correlations). I will review the relevant eco 45, Excel, and calculus concepts in class as we go along.

## **Readings and Textbooks**

There is no required textbook for this course. Reading will consist of the posted class notes, academic articles, policy briefs, and newspaper articles that will be distributed via Course Site. There will be two types of reading assignments: recommended and required. The required assignments will be directly related to the material covered in class, to the homework assignments, and to the exams. The recommended assignments are book chapters or articles that are useful as a guide for writing about economics or supplemental readings that explore the topics covered in class in more detail.

## **Additional materials:**

One of the main objectives of the class is to improve your ability to communicate about economic issues with various audiences. You will be asked to write more technical summaries for your peers who have seen the class material, and more general summaries of economic concepts for a general audience with no background in economics. Writing about economics can be very challenging, since it often combines technical writing and analysis with non-technical analysis intended for general audiences. This makes the ability to be both brief and clear at the same time particularly important. This is also something that is important in engineering, finance, accounting, statistics, medicine, etc. If you do not already own a similar handbook, I highly recommend purchasing Williams' book on style (the older version is available online and relatively cheap). Students interested in graduate school in economics or any job that includes writing about economic policy will also find McCloskey's book very useful.

1. Williams, J. M. and J. Bizup (2013), *Style: Lessons in Clarity and Grace*, 11<sup>th</sup> Edition, Longman. ISBN 0321898680
2. McCloskey, D. N. (2000), *Economical Writing*, 2<sup>nd</sup> Edition, Waveland Press. ISBN: 1577660633

The two books above are recommended, but not required. There are many additional resources you can use. Diedre McCloskey also has a number of short writing-related articles on her website. If you would like more recommendations or if you need more help, you can come see me in person, or set up an appointment with a tutor at the [writing center](#).

A good reference book for intermediate macroeconomics might also be useful, if you took eco 29 or 119 couple years ago, but it is not required. Recommended textbooks for reviewing intermediate macroeconomics:

1. Blanchard, O. and D. H. Johnson, *Macroeconomics*, (any edition is fine) Prentice Hall. This is the eco 119 textbook at Lehigh.

Other very popular standard macro textbooks:

2. Williamson, S , *Macroeconomics* (any edition), Addison-Wesley.
3. Abel, A., Bernake, B. and D. Croushore (any edition), *Macroeconomics*, Addison-Wesley.
4. Mankiw, G. (any edition), *Macroeconomics*, Worth Publishers.

If you just need to look up a basic concept outside of class, the library also has a number of textbooks, there are multiple online resources, and I have several textbooks on hand that you can borrow for up to a few day (but might be limited to few hours around exam time).

### **Class Attendance, Participation, and Presentations**

Although this class entails a fair amount of data analysis and writing, I view its mission more broadly as improving communication, which includes spoken expression as well as writing. I encourage you to demonstrate your engagement during class by asking questions, making comments, and answering questions that I ask.

You will receive a grade for class participation. The total weight for class participation is 10%.

- Attending class regularly and missing no more than 3 lectures without an excuse sets a base to your participation grade of 6% of your total grade. Each unexcused absence after the first 3 will reduce your grade by 1%.
- The remaining 4% will be based on your class participation. Even small contributions will quickly raise your grade from this level. You do not have to talk extensively to receive a good participation grade, and I will not try to keep track of every word that you utter. Rather, I will look for evidence that you regularly ask questions or offer comments. You are always welcome to ask questions during my office hours and by email, but there is a significant “positive externality” to class participation: your comments and questions benefit others when they are made during class time. In short, to get the additional 4% you need to make sure that your classmates and I remember your name by the end of the semester.

In addition, each student will be required to present in class at least once, with the presentation being worth 5% of your grade. The presentations will last between 5-15 minutes, and the topics will be assigned 7-10 days before the presentations. Students will be required to sign up for the presentations when the presentations are first assigned. I will try my best to match up the presentation topics with your interests, skills, and fields of study, but the presentation slots will be first-come first-serve.

## Assignments and Grading

There will be five homework assignments, a midterm exam and a final exam. Both the midterm and the final will be take-home and will consist of three parts: macroeconomic theory and models, analyzing current events, and a data analysis or short essay part.

The weights for each assignment and the due dates are as follows

|                     | Weight | Due date                               |
|---------------------|--------|--|
| Assignment 0        | 1%     | Monday, September 4 <sup>th</sup>      |
| Homework 1          | 4%     | Wednesday, September 13 <sup>th</sup>  |
| Homework 2          | 10%    | Wednesday, September 20 <sup>th</sup>  |
| Midterm 20% total   | 20%    | Wednesday, October 11 <sup>th</sup>    |
| Homework 3          | 5%     | Wednesday, October 25 <sup>th</sup>    |
| Homework 4          | 10%    | Wednesday, November 8 <sup>th</sup>    |
| Homework 5          | 10%    | <b>Friday</b> December 1 <sup>st</sup> |
| Final 25% total     | 25%    | Wednesday, December 13 <sup>th</sup>   |
| Class participation | 10%    | N/A                                    |
| Presentation        | 5%     | See above for scheduling               |

Parts of assignments 3 through 5 will be based on current events. Depending on what is going on in the world October-December, the due dates for Homework 3 through Homework 5 might be pushed back by a few days, if there are big events happening contemporaneously that are related to the material covered in class. You should operate under the assumption that the due dates for all assignments are fixed. If I decide to push a due date back, you will be notified ahead of time, when the homework is posted.

All assignments are due at 5pm and need to be submitted through course site. The late submission penalty is 20% per day.

The homework assignments will be posted on the course site a week before the due date. There will be two types of homework assignments:

1. Quantitative assignments (HW1 and HW3): you will be asked to perform basic statistical analysis and summarize historic facts about macroeconomic series, or to do some basic mathematical manipulation using the theoretical models covered in class. The goal of these assignments is to familiarize you with macroeconomic data and to show you how to apply models to the data. You will not need to use any advanced statistical methods. Basic working knowledge (eco 45 level) of Excel is sufficient.
2. Paper and model summaries (HW2, HW4, and HW5): you will be asked to

summarize and analyze papers and op-eds from the assigned reading list. The papers will be more advanced versions of the basic models covered in class, op-eds, or articles about current events. The goal of these assignments will be to introduce you to more advanced macroeconomic models in more detail, to help you analyze controversial issues in contemporary macroeconomics from multiple perspectives, and to teach you how to summarize technical papers for different audiences.

The midterm and the final will have both a quantitative component and a writing component. The exams will be posted two weeks before the exam is due. You will be asked to evaluate the plausibility of the models covered in class and to use the models to analyze economic issues.

All written assignments or parts of assignments will be graded on a 10-point scale as follows:

- 10: Truly outstanding work that far exceeds expectations. Your paper/summary/short essay shows a detailed understanding of your argument; demonstrates coherent organization, provides supporting evidence, used appropriately; and has few or no mechanical mistakes. The paper contains clear, unambiguous sentences. You show that you have something interesting to say, and you say it clearly and gracefully to an appropriate audience, while supporting it fully. (10=No problems at all, only very minor typos, I have no comments)
- 9: Excellent effort that is as good as I could reasonably hope for, with room for minor improvements in the organization or style. Your paper shows a detailed understanding of your argument; demonstrates coherent organization, provides supporting evidence; has few mechanical mistakes. The paper contains clear, unambiguous sentences. There is potential for improvement in the style, or your arguments need more supporting evidence. (9= I have minor comments about style/ mechanics OR about audience OR about supporting evidence)
- 8: Good grasp of the economic models, but room for improvement in the organization or style, or multiple minor issues with the economic interpretation. The paper has clear thesis, organization, and continuity, but may have multiple minor mechanical errors. Your style may be slightly awkward at times, or you are writing for the wrong audience. The ideas are anchored in theory and evidence, showing that you have thought enough about the topic to make a solid, but not striking argument. (8=I have comments about two of the following categories: style, audience, problems with supporting data/ graphs/ equations)
- 7: The main ideas are correct, but there are either multiple minor issues with understanding the economic model, or the main ideas are correct but there are major issues with communication and style. The paper has clear thesis but may need improvement in the organization or continuity, or may have major mechanical errors. Your style may be slightly awkward at times, or you are writing for the wrong audience. The ideas are anchored in theory and evidence, showing that you have thought enough about the topic to make a solid, but not striking

argument. (7=I have comments about all three categories)

- 6: Major problems with understanding and/or communication. The paper has a weak, fuzzy thesis and perhaps illogical or confusing arguments to support it. The writing may be sloppy, so that you have multiple minor mechanical errors or perhaps some major ones (such as incomplete sentences or repeated paragraphs). You give examples for their own sake or to show that you have done some research, not to prove a point. Organization sprawls, words are misused, proofreading is very weak. (6= I have substantial comments about all three categories and you made arguments that were clearly wrong)
- 5: Shows effort or some understanding of the topic, but misses much of the main point. Your paper has no thesis or very major mechanical problems; poor organization; serious misunderstanding of the evidence; stretches in which you simply ramble on for no apparent purpose. (Very major problems in all categories)
- Below 5: unacceptable work for an advanced macroeconomics student. Either you plagiarized, you wrote a paper on a completely unrelated topic, or your paper is an absolute mess.

You need to turn in the exams as a **single PDF file** that includes both the quantitative part and the written part. You can upload all assignments on Course Site. In the interest of good course organization and fairness to all students, I try to follow clear procedures for deadlines and extensions. Please read the following policies carefully and resolve any questions that you have early in the semester. The midterm and the final will be posted on the course website two weeks before the due date. All assignments and exams are due by 5pm. You can turn in assignments using the Course Site, or by email **if Course Site is not available**. If you need to turn an assignment by email, I will reply to confirm that I have received your assignment within 24 hours. If you do not hear back from me, please email me again and forward your original email, or come and talk to me in person. Please turn in the assignments **as pdf files only**.

Most Mac, Windows, and Linux word processors have the ability to convert word documents to pdf with a single click (all you have to do in most word processors is select to save the file as a pdf when you go to save as). If you are not sure how to convert files to pdf on your computer, please stop by during my office hours and I will be happy to help you. If you have problems accessing the assignments on the class website, please email me or come to my office at least 24 hours before the assignment is due so I can give you a hard copy of the assignment.

## **Extensions**

I understand that a lot of you have job interviews/ exams/ graduate school interviews. All of you have the option to request up to 4 24-hour extensions on any of the assignments for any reason (4 days total). To request an extension, you need to email me at least 24 hours before the assignment is due. All requests have to be by email. You do not have

to provide a reason for requesting the extension, but you get a limited number of extensions, so I suggest budgeting them wisely.

If you request an extension within less than 24 hours of the deadline or after the deadline has passed, I will implement a partial late submission penalty. For example, if you request a 3 day extension right when the assignment is due, you will get a 3 day extension but I will impose a 1-day late penalty for missing the 24 hour window to request the extension). If you request a 3 day extension 2 days after the assignment is due, you will get a 3 day extension, but I will deduct 3 days of late penalties. The late request will count as late submission. In short: it is completely fine to ask for an extension, just make sure to ask for it ahead of time.

It is up to you how you want to use the 96 hours of extension time. You can request 24 hours 4 times for 4 separate assignments, 24 hours on 2 assignments and 48 on a third one, 48 hours on two assignments, or a 4 day extension on 1 assignment. All extensions will be granted in 24 hour increments. For example, if you asked for a 24 hour extension and you turned in an assignment 12 hours after the original due date, you will not be able to save the 12 leftover hours for a future assignment. The 96 hours is a fixed limit. If you need to miss more than a few days of class, need longer extensions, or you missed a deadline because of an emergency, illness or other extremely extenuating circumstances, please contact me as soon as you can. If you need longer extensions, you should also contact the Dean of Student's office and come see me in person (or ask the Dean of Student's office to contact me if you are unable to see me in person). They can contact all of your professors and help you make arrangements for make-up work in all of your classes. The advisers from the Dean of Student's office and I can work together to set up an alternative grading scheme, make up exams, or give you extensions as necessary.

Each question will have points clearly indicated on the assignment. As general guideline, grades will be assigned based on the scores from the grading scheme as follows:

|        |   |    |
|--------|---|----|
| 94-100 | = | A  |
| 90-93  | = | A- |
| 87-89  | = | B+ |
| 84-86  | = | B  |
| 80-83  | = | B- |
| 77-79  | = | C+ |
| 74-76  | = | C  |
| 70-73  | = | C- |
| 67-69  | = | D+ |
| 64-66  | = | D  |
| 60-63  | = | D- |
| <60    | = | F  |

Please note that the scale above is only an approximation. I may curve the raw scores obtained from the grading scheme above at the very end of the semester.

## Course Outline

The course outline is tentative. Since this is an advanced class, I reserve the right to amend the schedule. Any changes to the schedule will be announced in class and posted on the website. We will cover as many topics as time permits, which in turn will depend on the pace of the class. The assigned readings for each topic will be posted on Course Site.

1. Introductions to Business Cycles and Macroeconomic Data
  - a. Main research questions for the semester
  - b. Brief eco 29/119 review of terminology
  - c. Business cycles: definitions and patterns;
  - d. Business cycles: data analysis; Presentation 1: basics of excel
  - e. Business cycles in historic perspective; Presentation 2 (2 students): recessions as introductory case studies
  
2. Basic IS/ LM Model
  - a. The eco 29 version: graphical analysis
  - b. The eco 119 version of the IS curve: mathematics and assumptions
  - c. When are those assumptions unrealistic? Presentation 3: economists and policy makes/ pundits with strong opinions
  - d. The LM Curve
  - e. Spending and tax multipliers; How can we make the model more realistic
  
3. Microfoundations
  - a. Macroeconometric models and inability to get future data. What is wrong with equation-based models? Why do we sometimes need more involved approaches? Presentation 4: Mathematical review. The rest of the presentations will be scheduled as we go along, depending on current events and the class performance.
  - b. Consumers and utility functions
  - c. Firms and production functions
  - d. Spending multipliers and tax multipliers
  - e. How can we make the model more realistic; Presentation: Case study about productive government spending
  
4. Overlapping generations and models that account for the future
  - a. Presentation: Midterm Review (tentative) The mechanics of a dynamic model
  - b. The effect of future events on the present
  - c. Social security; Presentation: why social security funding matters; Demographics, immigration, and retirement systems.
  - d. Access to credit markets and lending; Presentation: discrimination in lending and low income consumers

5. Real business cycles
  - a. The mechanics of an RBC model
  - b. The effects of tax and spending; Presentation: case study about productive tax incentive schemes
6. Other GE models:
  - a. Coordination failure: bubbles in housing and financial markets
  - b. Expectations: forward guidance, Brexit, political instability; Presentation: 1-3 students, depending on current events and interest
7. Labor market models:
  - a. Basic search model; Presentation: unemployment benefits
  - b. Advanced search models
8. The Great Recession, Secular Stagnation, Post-2016 policy proposals
  - a) Causes, policy responses, and recoveries
  - b) Secular stagnation
  - c) Labor market recoveries and lack of recoveries
  - d) Political and policy changes

## University Policies

The work you do in this course must be your own. This means that you must be aware when you are building on someone else's ideas—including the ideas of your classmates, your professor, and the authors you read—and explicitly acknowledge that you are doing so. Discussing the assignments with your classmates is acceptable and encouraged, but any assignments that are turned in must be your own. Feel free to build on, react to, criticize, and analyze the ideas of others but, when you do, make it known whose ideas you are working with. If you ever have questions about drawing the line between others' work and your own, ask me and I will give you clear guidance or you may visit Lehigh's 'Managing your Information and Citing it' page at:

[http://library.lehigh.edu/content/managing\\_your\\_information\\_and\\_citing\\_it](http://library.lehigh.edu/content/managing_your_information_and_citing_it)

All of your sources should be properly cited. If you are unsure how to properly cite something, or what exactly constitutes plagiarism, please see me before you turn in your assignment, or contact the writing center for help. Once you turn in an assignment, it will be evaluated using the standard criteria.

Accommodations for Students with Disabilities: If you have a disability for which you are or may be requesting accommodations at any point during the semester, please contact both your instructor and the office of Academic Support Services, University Center 212 (610-758-4152) as early as possible in the semester. You must have documentation from the Academic Support Services office before accommodations can be granted. The Academic Support Services office does not directly forward the letters to your professors. You will need to provide the letter to me at least 7 calendar days before you need accommodations. After I have the letter, I will be more than happy to accommodate you.

Lehigh's Principles of Our Equitable Community: Lehigh University endorses The Principles of Our Equitable Community (<http://www4.lehigh.edu/diversity/principles>). We expect each member of this class to acknowledge and practice these Principles. Respect for each other and for differing viewpoints is a vital component of the learning environment inside and outside the classroom.

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Template grading sheet for presentations

Content (50%)

1. (25%) Accuracy (if using a mathematical formula, it should be correct, if talking about a person who might have biased views about policy because of political affiliations, their background info should be correct, if using data and summary statistics to illustrate an economic phenomenon, the summary statistics should be calculated correctly).
2. Clarity (15%)
  - a. Was the main question answered clearly- did most people in the class get what you were trying to say?
3. Use of appropriate resources and supporting files (10%). For example, you can use excel to show how to calculate summary statistics, graphs and tables if using data. You can use links to web-sites if you're showing your classmates how to download data, or you can use videos/ alternative resources. You do not have to use slides and supporting materials- in some cases not using any is more appropriate.

Audience targeting (25%)

1. (15%) Was the presentation delivered at the correct level?
  - a. Did the presenter assume too little background knowledge?
  - b. Did the presenter assume too much background knowledge? (Always more dangerous)
2. (10%) Were questions addressed appropriately (if applicable)
  - a. Not answering questions fully is okay, as long as you can direct them to the answers (for example, if you're talking about correlation between two series and somebody asks you how to calculate correlation, respectfully telling them that the Excel help files have more information is okay)

Delivery (25%)

1. (15%) Kept within the allotted time (slightly shorter is better than longer)
2. (5%) The presentation was as continuous as possible (excluding breaks for questions), and logically organized
3. (5%) The presenter spoke clearly and the volume level was appropriate