

Economics 490: Current Topics in Economics: Beyond Business Cycles
Winter, 2007

Lorch 312
Office Hours: Monday 4:00–5:00, Wednesday 4:00–5:00
764-2375

Miles Kimball
Department of Economics
mkimball@umich.edu¹

I. Course Description

Economics 490—“Beyond Business Cycles”—is the most advanced undergraduate macroeconomics course in the curriculum at the University of Michigan. It focuses on the medium and long-run response of the economy to changes in preferences, technology and government policies. I will assume that you are comfortable with the use of graphs, algebra, logarithms and calculus, and that you are willing to learn about optimal control theory (maximization over time). I will also assume that you are comfortable with the material in Economics 401 (Intermediate Micro), as well as, of course, the material in Economics 402 (Intermediate Macro). Most importantly, I will assume that you have a genuine intellectual interest in economics and the interplay between abstract mathematical theory and empirical facts that is the heart of modern economics.

This is the first time I have taught the course. However, my previous teaching experience at the University of Michigan (particularly teaching Economics 418 “Business Cycles”) convinces me that the most highly motivated and intellectually curious undergraduates at the University of Michigan can deal well with a great deal of material that has ordinarily been thought to be too difficult for undergraduates.

The heart of Economics 490 is class discussion and lectures. Class participation will be crucial to the success of the course and much of the material will only be available in the lectures. If you decide to take the course, I will expect you to attend every class and be willing to participate in class discussion. Most of the time I will use ordinary questions and answers and class discussion, but in order to make periodic use of (a kinder, gentler version of) the Socratic method and to encourage preparation and class participation, at various points in the course I will choose a student at random for a dialogue. You will get full credit for class attendance and participation as long as you are present and willing to participate.² I will give extra credit for especially good class participation at any time throughout the semester.

Because of the primacy of class discussion and the Socratic method, the course is nonlinear. Taking questions seriously may require significant detours. There will be a substantial amount of jumping from one topic to another, backtracking, and circling around topics. With difficult material as in this course, it is especially valuable to revisit topics from time to time from a different angle. Often, what didn’t make sense to you from one point of view finally clicks when looked at from another point of view.

This is a course meant to give undergraduates a taste of Macroeconomics at the frontier. At the cutting edge, Macroeconomics is much more closely tied to Microeconomics than would be apparent from what you learned in Intermediate Macro. Modern macroeconomic models are built up from utility functions, technology and market structure. The connection to Microeconomics is particularly strong in the medium and long-run, after prices have adjusted.

Economics 490 studies the medium- and long-run response of such microeconomically-based macroeconomic models to changes in preferences, technology and government policy—in particular, the dynamic response of things like consumption, investment, the real wage and real interest rate, output, etc. These medium- and long-run movements of the economy are often much more important for economic welfare than business cycle movements.

¹ I encourage you to use electronic mail to ask questions or send messages. I have found that electronic mail works well. For example, if you need any accommodation in relation to this class for a disability, please send an e-mail to me as soon as possible.

² If you must be absent, I will expect you to send me an e-mail message to that effect in advance. I will let you know if these prearranged absences become excessive.

The bottom line is that this course is not for everyone. I am expecting to have about 40 students who still want to take the class once you have all had the chance to think hard about whether this is the right course for you. So I hope to be able to let in everyone who is up to the challenge.

The issues we will discuss in this course are very important for understanding current events.³ The interaction of theory and current events is a central aspect of the course, which is why I ask each of you to subscribe to the Wall Street Journal during this semester and to regularly write about the relationship between the macroeconomic theory taught in the course and real world events.

II. Books Required

The Wall Street Journal

Mokyr, Joel, *The Gifts of Athena: Historical Origins of the Knowledge Economy*

Friedman, Thomas L., *The World is Flat: A Brief History of the 21st Century*

III. Assignments and Grading

There will be one in-class exam toward the end of February, worth 30% of your grade and a final exam in this room on the day shown in the exam schedule worth 40% of your grade. My reading of the exam schedule has the Final Exam on:

(My policy is to not do make-up exams, so don't count on that.)

In order to encourage you to read the *Wall Street Journal* regularly, to give you some low-pressure practice in writing, and to make it possible to give Upper Level Writing Requirement credit for the course, there will be a 3+ page essay on some current article or articles related to macroeconomics due every Wednesday. These essays will be 15% of your grade. No late essays will be accepted (early is fine). The remaining 15% will be based on class attendance and participation and good-faith completion of miscellaneous homework assignments, including doing some critiques of your fellow students' papers.⁴

IV. Course Outline

You are expected to read *The World is Flat* in the first few weeks of the course and *The Gifts of Athena* by mid-February. You are also expected to read the newspaper and magazine articles in the coursepack and in handouts and to generally keep up with current macroeconomic events as reported by the Wall Street Journal. You are unlikely to be able to understand the coursepack chapters and other articles until we have gone over the material in lecture.

As mentioned above, the core of the course is in the lectures and class discussion. The course can be divided into four roughly equal parts:

- I. Control Theory
- II. Long-Run Analysis
- III. Full Employment Equilibrium (Contemporaneous General Equilibrium Analysis)
- IV. Medium-Run Dynamics (Dynamic General Equilibrium Analysis).

Some of the material is quite advanced, but we will go through it carefully and at a measured pace.

³ Here are some examples. (1) Budget deficits and future Social Security and Medicare costs in an aging society may require tax increases. But what are the effects of large labor income taxes or large capital taxes on the macroeconomy? Can tax reform help? (2) When do the harms of budget deficits appear? (3) Manufacturing productivity continues to improve at a quick pace. What does this do to manufacturing employment? (4) What are the effects of economic globalization on the U.S. economy and on the economies of other countries? (5) What are the medium- and long-run effects of persistent oil price increases on the macroeconomy? (6) What are the effects of Web 2.0? Does it matter whether the application is for consumers or for firms? (7) What effect will the new rules allowing firms to automatically enroll people in 401K's and other defined contribution pensions have on the economy as a whole?

⁴ Note that this course has a much heavier analytical component than most Upper Level Writing courses. Because of the high mathematical and intellectual level of the course, it is not appropriate or wise to take this course simply to satisfy the Upper Level Writing requirement.