

**UNIVERSITY OF PUERTO RICO  
RIO PIEDRAS CAMPUS  
BUSINESS ADMINISTRATION FACULTY  
GRADUATE BUSINESS SCHOOL**

**PRONTUARIO**

- I. COURSE TITLE:** Managerial Macroeconomics: Theory of Income and Money
- II. COURSE CODIFICATION:** ECOG 8005
- III. HOUR CREDITS:** 3 hours per week / 3 credits
- IV. PRERREQUISITES:** Calculus, ECOG 6567
- V. COURSE DESCRIPTION:**

This doctoral level course that involves analysis of national income, employment, and price levels. We analyze monetary and fiscal policy and how these policies affect the three measurements of the aggregate economy. We explore different theories and their predicted relationship of government policy to national welfare.

**VI. COURSE OBJECTIVES & LEARNING OUTCOMES:**

**The objective of the course is two-fold:**

Introduce the student to advanced methods of modeling the macro economy. This introduction should give the student a better understanding of how theoretical models are built not only for macroeconomics but also for broader disciplines in academics.

The macro economy affects every business. Therefore this course is meant to introduce the student to the fundamental theories of macroeconomics and to give the students a better understanding of how government policy may affect the aggregate economy. This course provides the student with an understanding of the competing macroeconomic theories of how monetary and fiscal policy affects GDP, employment, inflation, and interest rates. Understanding the class notes should be the primary objective of students. Many of the books and papers cover the material at a higher level than we will in class, so students should not get discouraged when trying to read them, particularly early in the course.

**VII. COURSE CONTENT:**

| <b>Topic/ Activities</b>                                  | <b>Hours<br/>Equivalency</b> |
|---|------------------------------|
| Introduction  | 0.5 hours                    |
| Simple Representative Agent Economies                     | 3 hours                      |
| Growth Theory   | 3 hours                      |
| Introduction to Business Cycle                            | 2.5 hours                    |
| Real Business Cycles                                      | 3 hours                      |
| The empirical relevance of real business cycle models     | 3 hours                      |
| Introduction to monetary economics                        | 3 hours                      |
| Money and growth  | 3 hours                      |
| Introduction to Keynesian macroeconomics                  | 3 hours                      |
| The IS and AS-AD Models                                   | 6 hours                      |
| The consumption function                                  | 3 hours                      |
| Rational expectations and the permanent income hypothesis | 3 hours                      |
| Overlapping generations models                            | 3 hours                      |
| Financial intermediation and business cycles              | 3 hours                      |
| The Luca's supply curve                                   | 3 hours                      |

**VIII. INSTRUCTIONAL STRATEGY (Teaching Methodology):**

Classes meet every week for lecturing and discussion purposes. The students are responsible for the readings and the background materials. Taking full advantage of this course will require at least 10 hours a week of work outside class. The exercises and the paper test and extend the themes introduced in class. Each student should prepare a research paper or a detailed survey paper about a theme in this subject.

**IX. REQUIRED LEARNING RESOURCES:**

Students should have access to a computer and a calculator. Some exercises are numerical and the research paper might require data analysis.

**X. EVALUATION STRATEGY:**

| <i>EVALUATION STRATEGY</i> | <i>PERCENTAGE</i> |
|----------------------------|-------------------|
| Midterm                    | 25%               |
| Final Exam                 | 35%               |
| Homework Assignments       | 15%               |
| Paper                      | 25%               |

*Special evaluations will be extended to students with special accommodation necessities.*

**XI. ASSESSMENT STRATEGY:** Homework and book summaries in PPT

**XII. GRADING SYSTEM:** 100-90%=A, 89-80%=B, 79-70%=C, 69-60%=D and 59-0%=F

**XIII. LEY 51 – REHABILITACION VOCACIONAL:**

*Según la Ley de Servicios Educativos Integrales para Personas con Impedimentos, todo estudiante que requiera acomodo razonable deberá notificarlo al profesor el primer día de clase. Los estudiantes que reciban servicios de Rehabilitación Vocacional deben comunicarse con el (la) profesor(a) al inicio del semestre para planificar el acomodo razonable y equipo asistivo necesario conforme a las recomendaciones de la Oficina de Asuntos para las Personas con impedimentos (OAPI) del Decanato de Estudiantes. También aquellos estudiantes con necesidades especiales de algún tipo de asistencia o acomodo deben comunicarse con el(la) profesor(a).*

*Certificación #99 (01-02) del Senado Académico, Ley 51 de 1996 (Ley de Servicios Educativos Integrales para personas con impedimentos) y la Certificación 130 (1999-2000) de la Junta de Síndicos.*

*Students who receive services from Vocational Rehabilitation (Rehabilitación Vocacional) must communicate with the professor at the beginning of the semester to plan a reasonable arrangement and necessary assisting equipment according to the 2 recommendations of the Office of Handicapped Persons Affairs (Oficina de Asuntos para las Personas con Impedimento, OAPI) of the Dean of Students. Also, those students with special needs that require some type of attendance or arrangement must communicate with the professor.*

#### **XIV. CONDUCTA ESTUDIANTIL SUJETA A SANCIONES DISCIPLINARIAS:**

*El Reglamento General de Estudiantes de la Universidad de Puerto Rico, Certificación 13, 2009-2010, y aprobado por el Departamento de Estado de Puerto Rico el 9 de septiembre de 2009, Parte VI, Artículo 6.2, establece las conductas de los estudiantes sujetas a sanciones disciplinarias. Entre las mismas se encuentra la deshonestidad académica, la cual conlleva sanciones disciplinarias según establecido en dicho reglamento.*

#### **XV. BIBLIOGRAPHY (includes Textbooks):**

##### **Recommended Text:**

Blanchard, O. & Fisher, S. (1989). *Lectures on Macroeconomics*. MIT press.

Blanchard, O. (2003). *Macroeconomics*. Third edition, Prentice Hall.

Branson, W. (1989). *Macroeconomic Theory and Policy*. Third edition, Addison-Wesley.

Dornbusch, R., Fischer, S. & Startz, R. (2000). *Macroeconomics*. Eighth edition.

Hull, J. (1989). *Options, Futures and Other Derivative Securities*. Prentice-Hall, Inc.

Obstfeld, M. & Rogoff, K. (1997). *Foundations of International Macroeconomics*. MIT press.

Romer, D. (2001). *Advanced Macroeconomics*. Second edition, McGraw-Hill.

##### **Articles:**

Below is a list of article that may be referred to during the course of the semester. For a more comprehensive list look at the reading list given with the lecture notes.

Akerlof, G. and J. Yellen, "A Near-Rational Model of the Business Cycle with Wage and Price Inertia," *QJE*, 1985 *Efficiency Wage Models of the Labor Market*, Cambridge U. Press, 1986.

Azariadis, Costas and Bruce Smith, "Financial Intermediation and Regime Switching in Business Cycles", *AER*, June 1998

Ball, L.N., N.G. Mankiw and D. Romer, "The New Keynesian Economics and the Output-Inflation Tradeoff", *Brookings Papers on Economic Activity*, 1988

Baumol, W., "The Transactions Demand for Cash -- An Inventory Theoretic Approach," *QJE*, 1966

Browning, Martin and Thomas F. Crossley, The Life-Cycle Model of Consumption and Saving *The Journal of Economic Perspectives*, Vol. 15, No. 3. (Summer, 2001), pp. 3-22.

Caballero, R.J. and Engel, E. "Explaining Investment Dynamics in U.S. Manufacturing: A Generalized Approach", *Econometrica*, 1999: 783–826

Calvo, Guillermo A., y Frederic S. Mishkin, The Mirage of Exchange Rate Regimes for Emerging Market Countries, *The Journal of Economic Perspectives*, Vol. 17, No. 4. (Fall, 2003), pp. 99-118.

Campbell, John Y. and Sydney Ludvigson, Elasticities of Substitution in Real Business Cycle Models with Home Production *Journal of Money, Credit and Banking* > Vol. 33, No. 4 (Nov., 2001), pp. 847-875

Canzoneri, Matthew B., Robert E. Cumby and Behzad T. Diba, Is the Price Level Determined by the Needs of Fiscal Solvency? *The American Economic Review*, Vol. 91, No. 5. (Dec., 2001), pp. 1221-1238.

Ellingsen, Tore and Ulf Soderstrom, Monetary Policy and Market Interest Rates, *The American Economic Review*, Vol. 91, No. 5. (Dec., 2001), pp. 1594-1607.

Fehr Ernst and Jean-Robert Tyran, Does Money Illusion Matter?, *The American Economic Review*, Vol. 91, No. 5 (Dec., 2001), pp. 1239-1262

Gourinchas, Pierre-Olivier and Jonathan A. Parker *Consumption over the Life Cycle*, *Econometrica*, Vol. 70, No. 1. (Jan., 2002), pp. 47-89.

Hall, R.E., "Stochastic Implications of the Life Cycle -- Permanent Income Hypothesis: Theory and Evidence," *JPE*, 1978, reprinted in LS

Mankiw, G., "Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly," *QJE*, 1985

Mankiw, G, "The Reincarnation of Keynesian Economics," *European Economic Review*, April 1992.

Modigliani, F., "The Life Cycle Hypothesis of Saving: Twenty Years Later," in M. Parkin, *Contemporary Issues in Economics*, 1975

Orphanides, Athanasios, Monetary Policy Rules Based on Real-Time Data, *The American Economic Review*, Vol. 91, No. 4. (Sep., 2001), pp. 964-985.

Pindyck, R. S., "Irreversibility, Uncertainty, and Investment," *Journal of Economic Literature*, 1991

Romer, Christina, & David Romer (2004), A New Measure of Monetary Shocks: Derivation and Implications, *American Economic Review* 94 (September), 1055-1084.

Romer, Christina, & David Romer (2002), A Rehabilitation of Monetary Policy in the 1950s, *American Economic Review* 92 (May),

Romer, David & Christina, Romer, (2000), Federal Reserve Information and the Behavior of Interest Rates, *American Economic Review* 90 (June): 429-457.

Romer, David, Keynesian Macroeconomics without the LM Curve *The Journal of Economic Perspectives*, Vol. 14, No. 2. (Spring, 2000), pp. 149-169.

Stadler, G W, "Real Business Cycles," *Journal of Economic Literature*, December 1994.

Tobin, J., "Money and Economic Growth," *Econometrica*, 1965, reprinted in Stiglitz and Uzawa

Microeconomic Concepts Students Should Learn Before Intermediate Macroeconomics, *Journal of Economic Perspectives*, Spring 1997, p153-160.