

Macroeconomics ECO394L
Fall 2024
The University of Texas at Austin

General Information

Instructor: Andres Drenik

Email: andres.drenik@austin.utexas.edu (include “ECON394L” in the subject line)

Lectures: Monday and Wednesday 9:00 am-10:30 am in BRB 2.136

Office Hours: Wednesday 4:00 pm-5:30 pm in BRB 3.152 by appointment

TA: Maria Teresa Sarmiento

Email: mtsarmiento@utexas.edu (include “ECON394L” in the subject line)

Review Session: Friday 9:00 am-10:30pm in BRB 2.136

TA Office Hours: Tuesday 3:00 pm-4:30 pm in BRB 1.102

Course Description

The purpose of this course is to provide an introduction to the frontier tools used to understand the dynamics of economic aggregates. We will study the determinants of consumption and investment, the real business cycle model, and the search and matching theory of unemployment. We will also study topics that have received particular interest recently, such as the rapid increase in inflation. To do so, we will discuss the issue of nominal rigidities to understand the real effects of monetary policy and how it should be implemented optimally. The course will conclude with an analysis of the conduct of fiscal policy and the implications for the economic aggregates. Methodologically, the course will focus on the models required to discuss these issues. However, it will also present empirical evidence about the predictions these models make.

Disclaimer

There is a lot of information to digest below, but we all have to share the same expectations. Thus, I will assume that you will read all the information below. Please, do so.

I understand the many challenges you are facing this coming semester, so I will do my best to accommodate any inconvenience. However, there will be no exceptions to the rules established in the syllabus.

Prerequisites

Students taking this course must have basic knowledge of Intermediate Microeconomics, Intermediate Macroeconomics, Introduction to Econometrics, Linear Algebra, and Calculus.

Lecture Format

Lectures will be in person on Mondays and Wednesdays from 9:00 am - 10:30 am. Thus, the course will be conducted in person, in the traditional lecture format. Regular attendance is expected. There will be no class recordings.

Course Website

All instructions, assignments, readings, rubrics, and essential information will be on the Canvas website at <https://utexas.instructure.com>. I will also use the website to send general announcements. Check this site regularly and use it to ask questions about the course schedule. This syllabus is subject to change; students who miss class are responsible for learning about any changes to the syllabus. I will consider posting information on Canvas as sufficient notice.

Problem Sets

There will be 6 problem sets. It is encouraged to discuss and work together in groups of up to three students. However, students must submit their own write-up of the solutions. The *tentative* due dates for the problem sets are: 9/16, 9/25, 10/7, 11/13, 11/25, and 12/9. Homework is due at the beginning of class on the specified day. Problem sets that are finished after the due date can be handed in at the beginning of the following class at the cost of receiving only 50% of the total credits. No make-up problem sets will be given. Each student can drop at most one problem set. The final grade will consider the best 5 problem set grades.

Exams

There will be one in-person midterm exam on October 14th in class and one in-person final exam (the date will be announced soon). The final exam is not cumulative. It will cover only the material after the first midterm. As you will see, however, lectures do typically refer to material covered in previous lectures. Thus, inevitably, exams might ask questions that involve topics covered in a previous exam.

There are no make-up midterm exams. In case a student misses the midterm exam (for whatever reason), the midterm's weight will be shifted toward the final exam. The shift in weights only applies to students that did not take the midterm exam. The student may be excused from taking the final exam following standard procedures provided by the university—that is, by providing documentation of the reason for your missing the final exam, which might include a letter from the doctor for medical reasons or the dean of students for other reasons. If the student is so excused, an oral make-up exam will replace the final exam.

Grading

The final grade will be composed of a weighted average of the following components: problem sets (40%), midterm exam (30%), and final exam (30%). I will use plus/minus grade categories when assigning final grades (i.e., A, A-, B+, B, ..., D-, F). *Final* grades will be curved per department guidelines, meaning that your letter grade will be assigned based on your weighted average course score and your performance relative to the rest of the class. Please do not ask me about extra credit or extra work to improve your grade, as these are not available.

If you would like any grade to be reconsidered, you have 5 days to submit a request once the assignment grades are released. The request must be written and must provide specific reasons why specific questions were graded improperly. Appeals submitted after the 5-day window will not be accepted. Keep in mind that revisions can lead to higher grades but also lower grades. I will not discuss the outcomes of the appeal.

Recitations

There will be a weekly recitation. During these sessions, the TA will present empirical papers about the topics discussed during the lecture, review the theory covered in the lectures, and discuss the solutions to the problem sets. Regular attendance at these sessions is **strongly encouraged** and expected.

Schedule

The schedule is described in the table below. The schedule contains each lecture's day and topic, the source of the material, the problem sets' due dates, the dates of the exams, and when there will be no lectures. It would help if you reviewed the schedule regularly to make sure that you know the topics we are discussing in the lectures. I plan to cover every lecture described in the schedule, but please view the schedule only as a good approximation.

Textbooks and Additional Readings

The recommended textbook for the course is

- David Romer, *Advanced Macroeconomics*, 4th edition, McGraw-Hill, 2012.
- Jordi Gali. *Monetary policy, inflation, and the business cycle: an introduction to the new Keynesian framework and its applications*, Princeton University Press, 2015

Part of the material is also based on:

- L. J. Christiano, M. Eichenbaum, and C. L. Evans. Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy. *Journal of Political Economy*, 113(1):1–45, 2005
- R. Clarida, J. Galí, and M. Gertler. Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory. *The Quarterly Journal of Economics*, 115(1):147–180, 2000
- J. Gali and M. Gertler. Inflation dynamics: A structural econometric analysis. *Journal of Monetary Economics*, 44(2):195–222, 1999
- C.-T. Hsieh. Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund. *The American Economic Review*, 93(1):397–405, 2003
- P. J. Klenow and O. Kryvtsov. State-Dependent or Time-Dependent Pricing: Does it Matter for Recent U.S. Inflation? *The Quarterly Journal of Economics*, 123(3): 863–904, 2008
- E. Nakamura and J. Steinsson. Five Facts about Prices: A Reevaluation of Menu Cost Models. *The Quarterly Journal of Economics*, 123(4):1415–1464, 2008
- N. S. Souleles. The Response of Household Consumption to Income Tax Refunds. *American Economic Review*, 89(4):947–958, 1999
- M. Woodford. Simple Analytics of the Government Expenditure Multiplier. *American Economic Journal: Macroeconomics*, 3(1):1–35, 2011

Course Outline

| Date | Lecture # | Topics | Source | Problem Set |
|----------|-----------|-----------------------------------------------------|--------------------------------------------------|--------------|
| 8/26/23 | 1 | Consumption - Permanent Income Hypothesis | Romer 8.1, 8.2, 8.4, 8.5 | |
| 8/28/23 | 2 | Consumption - Permanent Income Hypothesis | Romer 8.1, 8.2, 8.4, 8.5 | |
| 9/2/23 | - | No Class - Labor day Holiday | | |
| 9/4/23 | 3 | Consumption - Permanent Income Hypothesis | Romer 8.1, 8.2, 8.4, 8.5 | |
| 9/9/23 | 4 | Econometric test of PIH | Romer 8.3, Souleles (1999), Hsieh (2003) | |
| 9/11/23 | 5 | Labor supply | | |
| 9/16/23 | 6 | Investment | Romer 9.1, 9.2, 9.3, 9.4, 9.5 | PS1 Due Date |
| 9/18/23 | 7 | Investment | Romer 9.1, 9.2, 9.3, 9.4, 9.5 | |
| 9/23/23 | 8 | Facts about business cycle fluctuations | Romer 5.1, 5.3, (5.4), 5.5 | |
| 9/25/23 | 9 | Baseline RBC model | Romer 5.6, 5.7, (5.8) | PS2 Due Date |
| 9/30/23 | 10 | Baseline RBC model | Romer 5.6, 5.7, (5.8) | |
| 10/2/23 | 11 | Predictions of RBC model | Romer 5.6, 5.7, (5.8) | |
| 10/7/23 | 12 | Empirical evidence: real effects of monetary policy | Romer 5.9, 5.10, 6.5, Christiano, et. al. (2005) | PS3 Due Date |
| 10/9/23 | 13 | Money neutrality in RBC model | Gali 2 | |
| 10/14/23 | - | Midterm Exam | | |
| 10/16/23 | 14 | Price setting: monopolistic competition | Gali 3.1-3.3 | |
| 10/21/23 | 15 | New Keynesian model | Gali 3.1-3.3 | |
| 10/23/23 | 16 | New Keynesian model | Gali 3.1-3.3 | |
| 10/28/23 | 17 | New Keynesian model | Gali 3.1-3.3 | |
| 10/30/23 | 18 | Real Effects of monetary policy in the NK model | Gali 3.4 | |
| 11/4/23 | 19 | Optimal monetary policy | Gali 4.1-4.3 | |

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|----------|----|-----------------------------------------------------|-----------------------------------------------|
| 11/6/23 | 20 | Optimal monetary policy | Clarida, Gali, and Gertler (2000), Romer 11.6 |
| 11/11/23 | 21 | The role of commitment | Gali Chapter 5 |
| 11/13/23 | 22 | The role of commitment | Gali Chapter 5 |
| 11/18/23 | 23 | Fiscal policy: Ricardian equivalence, tax smoothing | Romer 12.1, 12.2, 12.3 |
| 11/20/23 | 24 | Fiscal policy: Gov Debt - Calvo 1988 | Romer 12.4, 12.10 |
| 11/25/23 | - | No Class - Academic Holiday | PS 5 Due Date |
| 11/27/23 | - | No Class - Academic Holiday | |
| 12/2/23 | 25 | Fiscal stimulus | Woodford (2011) |
| 11/4/23 | 26 | Fiscal stimulus | Woodford (2011) |
| 12/9/23 | 27 | Last day of classes: review | PS 6 Due Date |
| 12/11/23 | - | - | |
| TBC | - | Final Exam | |

University Policies and Resources

Statement on Academic Integrity

Each student in the course is expected to abide by the University of Texas Honor Code: “As a student of The University of Texas at Austin, I shall abide by the core values of the University and uphold academic integrity.” Plagiarism is taken very seriously at UT. Therefore, if you use words or ideas that are not your own (or that you have used in a previous class), you must cite your sources. Otherwise, you will be guilty of plagiarism and subject to academic disciplinary action, including failure of the course. You are responsible for understanding UT’s Academic Honesty and the University Honor Code, which can be found at the following web address: <https://deanofstudents.utexas.edu/conduct/standardsofconduct.php>

Services for Students with Disabilities

The university is committed to creating an accessible and inclusive learning environment consistent with university policy and federal and state law. Please let me know if you experience any barriers to learning so I can work with you to ensure you have equal opportunity to participate fully in this course. If you are a student with a disability, or think you may have a disability, and need accommodations please contact Services for Students with Disabilities (SSD). Please refer to SSD’s website for contact and more information: <http://diversity.utexas.edu/disability/>. If you are already registered with SSD, please deliver your Accommodation Letter to me as early as possible in the semester so we can discuss your approved accommodations and needs in this course. Also, students with disabilities requiring accommodation must provide written documentation well in advance of exam days (> 3 days).

Counseling and Mental Health Center

The [Counseling and Mental Health Center](#) serves UT’s diverse campus community by providing high-quality, innovative and culturally informed mental health programs and services that enhance and support students’ well-being, academic and life goals. To learn more about your counseling and mental health options, call CMHC at (512) 471-3515.

If you are experiencing a mental health crisis, call the CMHC Crisis Line 24/7 at (512) 471-2255.

Important Safety Information

If you have concerns about the safety or behavior of fellow students, TAs or Professors, call BCAL (the Behavior Concerns and COVID-19 Advice Line): 512-232-5050. Your call can be anonymous. If something doesn't feel right – it probably isn't. Trust your instincts and share your concerns.

The following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/>

Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.

- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation shall inform their instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors. Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Link to information regarding emergency evacuation routes and emergency procedures can be found at: www.utexas.edu/emergency

Title IX Reporting

Title IX is a federal law that protects against sex and gender-based discrimination, sexual harassment, sexual assault, unprofessional or inappropriate conduct of a sexual nature, dating/domestic violence and stalking at federally funded educational institutions. UT Austin is committed to fostering a learning and working environment free from discrimination in all its forms. When unprofessional or inappropriate conduct of a sexual nature occurs in our community, the university can:

1. Intervene to prevent harmful behavior from continuing or escalating.
2. Provide support and remedies to students and employees who have experienced harm or have become involved in a Title IX investigation.

3. Investigate and discipline violations of the university's [relevant policies](#).

Beginning January 1, 2020, Texas Senate Bill 212 requires all employees of Texas universities, including faculty, report any information to the Title IX Office regarding sexual harassment, sexual assault, dating violence and stalking that is disclosed to them. Texas law requires that all employees who witness or receive any information of this type (including, but not limited to, writing assignments, class discussions, or one-on-one conversations) must be reported. I am a Responsible Employee and must report any Title IX related incidents that are disclosed in writing, discussion, or one-on-one. Before talking with me, or with any faculty or staff member about a Title IX related incident, be sure to ask whether they are a responsible employee. If you would like to speak with someone who can provide support or remedies without making an official report to the university, please email advocate@austin.utexas.edu. For more information about reporting options and resources, visit <http://www.titleix.utexas.edu/>, contact the Title IX Office via email at titleix@austin.utexas.edu, or call 512-471-0419.

Although graduate teaching and research assistants are not subject to Texas Senate Bill 212, they are still mandatory reporters under Federal Title IX laws and are required to report a wide range of behaviors we refer to as unprofessional or inappropriate conduct of a sexual nature, including the types of conduct covered under Texas Senate Bill 212. The Title IX office has developed supportive ways to respond to a survivor and compiled campus resources to support survivors.

Land Acknowledgment

We would like to acknowledge that we are meeting on Indigenous land. Moreover, I would like to acknowledge and pay my respects to the Carrizo & Comecrudo, Coahuiltecan, Caddo, Tonkawa, Comanche, Lipan Apache, Alabama-Coushatta, Kickapoo, Tigua Pueblo, and all the American Indian and Indigenous Peoples and communities who have been or have become a part of these lands and territories in Texas, here on Turtle Island.