COURSE INFORMATION AND PROCEDURES

Course Description
The course will analyze current macroeconomic challenges and policy responses in the United States through the lens of modern macroeconomics and economic history. It will include a survey of business cycles since the Great Depression and an in-depth look at key macroeconomic policy issues, such as the impact of monetary and fiscal policy, the causes and effects of financial crises, and the role of uncertainty and balance-sheet effects in short-run fluctuations. The course is designed to build on the material in intermediate macroeconomics, and will include both theoretical and empirical analysis. Three hours of lecture and one hour of section per week. Prerequisites: Economics 100b or 101b.

Readings
The analytical framework for the course is presented in the open-access document *Short-Run Fluctuations* by David Romer, 2013. The other readings consist of scholarly journal articles, book chapters, and policy analyses, which have been collected in a reader. Both documents are available at Copy Central on Bancroft.

Lecture and Sections
Lectures are held on Tuesdays and Thursdays from 11:00 to 12:30 in 10 Evans. It is course policy that electronic devices, including phones, tablets, and laptops, are not to be used during lecture.

There is one section per week that will be used for discussion and to clarify the more difficult technical material. Students will be asked to think critically about the readings and discuss both the historical content of the assigned readings and the merits of the empirical approaches used.
Assignments and Grading
There will be a midterm and a final. In addition, students will be required to write a short critical and analytical essay on a selection of topics, and complete four graded problem sets. In determining the final grade, the midterm will count for 25 percent, the paper for 25 percent, the problem sets and section participation for 10 percent, and the final exam for 40 percent.

Learning Goals
As part of Berkeley’s Undergraduate Student Learning Initiative, the Economics Department has developed learning goals for the Economics major. Among the specific learning goals this course aims to achieve are: (1) Understand the role of empirical evidence in evaluating economic problems; (2) Use economic theory to understand and evaluate policy proposals; (3) Communicate effectively about economic issues; (4) Compare arguments; (5) Interpret results; (6) Solve problems; and (7) Understand economic news.

Instructor Contact Information and Office Hours
Professor Christina Romer
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Professor office hours for the course will be held in 683 Evans from 2:00-4:00 on Thursdays. GSI office hours are posted on the course website.

Course Website
Problem sets, lecture outlines, and slides will be posted on the course website:
http://emlab.berkeley.edu/users/webfac/cromer/e134_sp13/e134.shtml
**LECTURE OUTLINE AND READINGS**

**I. OVERVIEW OF MODERN MACROECONOMIC HISTORY AND POLICY**

A. Course Overview and Introduction to Macroeconomic Data (1/22)


B. The Great Depression (1/24)


C. Postwar Fluctuations (1/29)


D. The Great Recession (1/31)


**II. MONETARY POLICY AND SHORT-RUN FLUCTUATIONS**

A. Review of IS-LM/MP Framework (2/5)

   David H. Romer, *Short-Run Fluctuations* (open access, 2013), Section I, “The IS-MP Model.”

B. Does Monetary Policy Matter? (2/7)

   Problem Set 1 Distributed


C. Monetary Factors in the Great Depression (2/12)


III. INFLATION AND THE CONDUCT OF MONETARY POLICY

A. Review of the Open Economy and the AD-IA Framework (2/14) **Problem Set 1 Due**


B. Effects of Postwar Monetary Policy (2/19)


C. Conduct of Postwar Monetary Policy (2/21)


IV. MONETARY POLICY AT THE ZERO LOWER BOUND

A. The Zero Lower Bound in the IS-MP-IA Framework (2/26) **Problem Set 2 Distributed**

David H. Romer, *Short-Run Fluctuations* (open access, 2013), Section IV, “The Liquidity Trap.”

B. Zero Lower Bound in Practice (2/28)


V. THE ROLE OF FISCAL POLICY

A. Does Fiscal Policy Matter? (3/5)  
   **Problem Set 2 Due**
   


B. The New Deal (3/7)


Midterm Examination (3/12)

C. Fiscal Policy in the Great Recession (3/14)


VI. CAUSES OF FINANCIAL CRISES

A. Asset Price Bubbles (3/19)


B. Contagion (3/21)


Spring Break (3/26 and 3/28)

VII. CONSEQUENCES OF FINANCIAL CRISES

A. Including an Interest Rate Differential in the IS-MP Framework (4/2)

Problem Set 3 Distributed

David H. Romer, *Short-Run Fluctuations* (open access, 2013), Section V, “Credit Market Disruptions.”

B. Short-Run Effects of Financial Crises (4/4)


C. Balance Sheet Effects (4/9)

Problem Set 3 Due


D. Long-Run Effects of Financial Crises (4/11)

VIII. NONMONETARY FACTORS IN RECESSIONS

A. Uncertainty (4/16)

B. Income Inequality and Macroeconomic Behavior (4/18)
Robert B. Reich, Aftershock: The Next Economy and America’s Future, pp. 18-38 and 60-64 only (New York: Alfred A. Knopf, 2010).

Paper Due (4/23)

IX. BUDGET DEFICITS, CRISSES, AND FISCAL CONSOLIDATIONS

A. Hysteresis Effects on Unemployment (4/23) Problem Set 4 Distributed
B. Causes and Consequences of the U.S. Budget Deficit (4/25)


C. Expansionary Fiscal Contractions? (4/30)


D. The European Crisis (5/2)


**Final Examination** (Thursday, May 16, 8-11 A.M.)