

Department of Economics

University of North Carolina

Economics 520

Spring 2013

Richard Froyen

Advanced Macroeconomic Theory

COURSE DESCRIPTION

The course will cover 3 topics:

1. Optimal Monetary Policy: The Theory of What Central Banks Should Do.
2. Fiscal Policy Effects: The Keynesian Multiplier and After
3. Financial Crises: Causes and Policy Responses

Readings: For monetary policy the central reading will be Richard Froyen and Alfred Guender, *Optimal Monetary Policy Under Uncertainty* (Edward Elgar Publishing, 2008), paperback. For fiscal policy the readings will be articles. For the financial crises topic the central reading is Carmen Reinhart and Kenneth Rogoff, *This Time is Different* (Princeton University Press, 2009) paperback.

Assignments and Exams: There will be 2 exams and a project. The mid-term exam will be on March 7th and covers Topic 1. The final exam is on May 7th at 8am. The project will be either a paper or an empirical study on topic 2 or 3.

Course Outline and Assignments:

TOPIC 1: OPTIMAL MONETARY POLICY IN AN UNCERTAIN ECONOMY

Week One (January 15-17) : Background on the Federal Reserve and Current Monetary Policy; Froyen *Macroeconomics: Theories and Policies*, Chapters 16-17 (reading distributed in class).

Week Two (January 22-29) : Optimal Policy in the IS-LM Model; Froyen and Guender, Chapters 1-2.

Week Three (January 29-31): Optimal Monetary Policy as an Information Problem; Froyen and Guender, Chapter 3.

Week Four (February 5-7): Models with Rational Expectations; Froyen and Guender, Chapter 4.

Week Five (February 12-14): Optimal Monetary Policy as Managing Expectations; Froyen and Guender, Chapters 6.

Weeks Six and Seven (February 19-28): The New Keynesian Approach to Optimal Monetary Policy; Froyen and Guender, Chapter 9 and Chapter 11 pp.241-54.

Week 8 (March 5-7): Finishing Up and Exam

TOPIC 2 : FISCAL POLICY EFFECTS

The assignment will be articles from economics journals. This topic will be covered in weeks 9-11 of the semester (March 19th- April 4th).

TOPIC 3: FINANCIAL CRISES

The central reading for this topic is: *This Time is Different* by Carmen Reinhart and Kenneth Rogoff. There will also be a few articles on economic theories related to financial crises. I suggest that you read the Reinhart and Rogoff book over the course of the semester instead of waiting for this topic to come up in class. This will give you time to think about the topic and possible papers or projects for the course. The topic will be covered in Weeks 12-14 (April 9th-25th).