This course will teach students the basic tools of macroeconomics and how to apply these tools to real-world economic conditions. The course will help students understand how to evaluate macroeconomic conditions such as unemployment, inflation, and growth; how monetary and fiscal policy can be used to influence macroeconomic conditions; and how to interpret media accounts of macroeconomic events. The course will rely mainly on graphs and simple analytical tools, with infrequent use of simple equations. The course does not presume previous exposure to macroeconomics, although a previous semester-long course in some aspect of economics (at the level of API 101) or a quantitative undergraduate background is required. Because the primary goal of the course is to enable students to critically evaluate policy remedies for significant macroeconomic problems, the context for learning and using these tools will be the economic challenges faced by the United States and other countries today and in the recent past and the policy levers available to address those challenges.

Instructor: Professor Karen Dynan  
karen_dyan@hks.harvard.edu  
https://www.hks.harvard.edu/faculty/karen-dynan

Office hours: Wednesday 1:30-3:30pm (sign-up not required)  
Belfer 212

Teaching fellow: Gonzalo Huertas  
gonzalo_huertas@hks18.harvard.edu

Staff assistant: Caitlin Kupsc  
kupsc@fas.harvard.edu

Course schedule: Monday and Wednesday 11:45am-1:00pm, Littauer 332 (79 JFK Street)  
(we will also meet on Friday September 1)

Review sessions: Friday 11:45am-1:00pm, Littauer 332 (79 JFK Street)

Course website:  https://canvas.harvard.edu/courses/33311

LECTURES AND DISCUSSIONS. The course will have both lecture and discussion components. Lectures will cover analytical tools as well as findings from empirical studies by economists that help guide the use of those tools. Discussions will explore current challenges in macroeconomic policy, informed by media accounts and less-formal writing by economists and other experts. Some discussions will be led by students who will give brief oral presentations of one or two readings. Participation in class—during both the lecture and discussion components—will be graded, not based on whether students get the “right” or “wrong” answers to policy questions but on whether they contribute to a constructive discussion that relies on facts and economic principles.

READINGS. Readings listed below as “core readings” will help to teach macroeconomic tools. Readings listed as “for further reading” will provide additional background and inform in-class discussions; students should complete these readings before these discussions.
Many of the readings will be in N. Gregory Mankiw, *Macroeconomics, Ninth Edition*. This textbook is available at the Coop and will be on reserve in the HKS library. Lectures will cover much of the indicated chapters. Reading the textbook will be helpful, particularly for those students who find the in-class material more challenging or who want more detail. Earlier editions of the text are also adequate.

The other readings will be available electronically from the course page. These readings include discussions of macroeconomic policy in the press, as well as less formal writing (e.g. blogs, speeches) from economists and other experts.

Students are also strongly encouraged to keep up-to-date with current macroeconomic events by reading *The Economist, The New York Times, The Wall Street Journal, The Financial Times*, or another periodical with detailed coverage of economic news. These publications are all available in the HKS library and online through the library. The course website will have a section where students can post and comment on articles related to what they are learning in class; such postings will contribute to their participation grades.

**PROBLEM SETS.** Students will receive assignments throughout the course in order to reinforce the use of tools for policy analysis and to expand the issues analyzed beyond those covered in the classroom. The assignments will help students check the progression of their learning and prepare for the exams. Students are encouraged to work on the assignments in small groups (2 to 3 students), but the assignments should be written up independently. These assignments will be graded for completion but not for the accuracy of the answers.

**GRADES.** Course grades will be determined from a weighted sum of scores on problem sets (20%), participation (10%), midterm (30%), and final exam (40%). This course will use HKS's recommended grade distribution, which is described in your student handbook.

**MIDTERM.** October 18 (in class). Closed book.

**FINAL.** TBD. Closed book.

**COMMUNICATION.** I will hold regular office hours, as described above, for which sign-up is not required. In addition, feel free to reach me by email with concerns and questions. I will make every effort to get back to you in a timely fashion, but if you do not hear back within 48 hours, please write again to make sure that I did not lose track of your email. I also encourage you to post course-related questions, observations and suggestions on the course website. In general, you should check the course website regularly, as it will be updated with important information.

**CODE OF CONDUCT.** Please be on time. Laptops and other electronic devices cannot be used in class—with the exception of when they are needed for class exercises (such as polling). More general exceptions will be made if there is a documented need.

All course activities—including class meetings, homework assignments, and exams—are subject to the policies listed on the [Personal Conduct](#) and [Academic Integrity](#) pages of the HKS website. Academic misconduct of any sort will not be tolerated.
COURSE OVERVIEW

I – INTRODUCTION TO MACROECONOMICS AND ECONOMIC POLICY

Our tour of macroeconomics will start by visiting some key macroeconomic issues that economists grapple with. Why is the economy subject to significant fluctuations, characterized by swings in unemployment and production? What causes high inflation, and why is that problematic? How does the financial sector get into trouble, and what should policymakers do when that happens? Why do some countries increase income per capita so much more slowly than others? What are the causes of the slowdown in productivity growth that so many countries have seen in recent years? Should macroeconomic policy be targeting overall economic growth only, or should it address who is benefitting from that growth?

Along the way, we will define some key concepts and discuss macroeconomic data. Why are measures like GDP, inflation, national income, and unemployment important? Which of these measures are most reliable and which most subject to doubt?

II – WHAT CAN POLICY DO TO PROMOTE LONG-RUN GROWTH?

This section of the course will first focus on the tools used by economists to understand how living standards have evolved over time and why they differ across countries. It will examine the role of growth in the labor force as well as growth in productivity (the amount that is produced per worker). These issues are of great consequence, as they ultimately determine the amount of goods and services that can be consumed by a country’s population. Economic growth explains the enormous rise in the standard of living seen in the United States over time, as well as lifting hundreds of millions of people out of poverty in China and India in recent decades.

We will then turn to what tools policymakers can use to promote sustainable long-run growth. What can be done to boost labor force participation? How can the skills of workers be improved? What policies would increase and improve the capital that workers have to work with? How can economic dynamism and innovation be promoted? Given the very limited growth of lower and middle incomes seen in the United States and other advanced economies in recent decades, we will consider these tools in the context not only of how to raise overall economic growth but also of how to create growth that is broadly shared.

III – WHAT CAN POLICY DO TO STABILIZE OUTPUT AND EMPLOYMENT?

The effects of the financial crisis and the Great Recession caused enormous harm in countries around the world. In the United States, real GDP shrank by more than 4 percent, businesses shed 9½ million, household wealth fell by 8½ trillion, and as many as 10 million families lost their homes to foreclosure. The recovery was disappointingly slow in the United States and even slower in many other countries. Even in countries where the overall economy has largely normalized, like the United States, many of those people who entered the job market during this period or suffered a spell of job loss will feel permanent “scars” in terms of wages and salaries that are lower than they would have been had the economy not fallen into recession.

This part of the course will begin with some analytical tools used by economists to understand business cycles. These models provide a straightforward way to think about the shocks that can lead an economy into a downturn as well as the levers the government can use to mitigate such cycles. We will also consider the limitations of these models.

We will go on to explore the Great Recession, which was the worst economic downturn suffered in the United States since the Great Depression, and which affected many other countries as well.
We will discuss the roots of the financial crisis that preceded the recession and then consider how the financial upheaval affected the nonfinancial economy.

We will then turn to monetary policy and financial regulation. We will discuss how monetary policy can help to mitigate recessions in general and also explore some of the particular challenges that monetary policymakers have faced in recent years and will face going forward. We will also explore other actions that central banks can take to stabilize the financial system in a crisis as well as how appropriate financial regulation can reduce the likelihood of financial crises in the future.

Fiscal policy can also play an important role stabilizing output and employment in an economic slump. By changing taxes and spending, the government can support demand for goods and services and, in turn, limit downturns in the economy. We will consider what sorts of counter-cyclical fiscal policy are likely to be most cost-effective and feasible given constraints faced by policymakers. Our discussion of fiscal policy will wrap up with long-run fiscal challenges—the risks to economic growth posed by high and rising government debt, and what policy needs to do to address those risks.

Although this section will largely draw from the experience of the U.S. economy in recent years, other parts of the world have also experienced significant financial challenges and economic fluctuations. We will conclude this section by giving some thought to how we can use the tools we have learned to think about some of these episodes, including the Greek and European crises.

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DETAILED COURSE PLAN

This outline approximates the trajectory of the course through the semester. I will try to make sure that you know in advance which readings you are supposed to cover for each meeting as the semester unfolds.

PART I – INTRODUCTION TO MACROECONOMICS AND ECONOMIC POLICY

Wednesday August 30: The Big Questions of Macroeconomics

Core reading:
- Mankiw, chapters 1
- Easterly, William, *The Elusive Quest for Growth*, chapter 1

Further reading:
- Bernanke, Ben “When Growth is Not Enough,” speech, June 26, 2017

Friday September 1: Macroeconomic Data

Core reading:
- Mankiw, chapter 2

Further reading:
- Ingraham, Christopher, “Richer Countries Have More Leisure Time, with One Big Exception,”
Monday September 4: HOLIDAY (no class)

PART II – WHAT CAN POLICY DO TO PROMOTE LONG-RUN GROWTH?

Wednesday September 6: The Sources and Uses of GDP

Core reading:
- Mankiw, chapter 3

Further reading:
- “Anatomy of Thrift,” The Economist, September 22, 2005
- Mankiw, chapter 16
- Mankiw, chapter 17

Monday September 11: Determinants of Growth I

Core reading:
- Mankiw, chapter 8

Further reading:
- Easterly, William, The Elusive Quest for Growth, chapter 2-3
- “CBO’s Projections of Economic and Demographic Trends,” Appendix A of The 2016 Long-Term Budget Outlook, Congressional Budget Office, July 12, 2016

Wednesday September 13: Determinants of Growth II

Core reading:
- Mankiw, chapter 9

Further reading:
- Sichel, Dan, “Can the U.S. Economy Sustain 3½ to 4 Percent Economic Growth?,” Econofact, January 25, 2017

Monday September 18: Policies to Boost Labor Supply and Skills

Core reading:
- Schanzenbach, Diane Whitmore, David Boddy, Megan Mumford, and Greg Nantz,”Fourteen


Further reading:
- Black, Sandra and Wilson Powell, “Where Have All the (Male) Workers Gone?,” Econofact, July 10, 2017
- Yellen, Janet L., “So We All Can Succeed: 125 Years of Women’s Participation in the Economy,” speech, May 5, 2017
- Lewis, Leo, Japan’s Womenomics Resists the Sceptics,” The Financial Times, March 7, 2017

Wednesday September 20: Policies to Boost the Capital Stock

Core reading:
- IMF, Fiscal Monitor: Achieving More with Less, April 2017 (chapter 2 on tax reform)
- Congressional Budget Office, Spending and Funding for Highways, January 20, 2011

Further reading:

Monday September 25: Policies to Increase Dynamism and Innovation

Core reading:

Further reading:
- Goldman Sachs Economics Research, “Super Profits and Superstar Firms,” July 22, 2017

Wednesday September 27: Policies to Create Inclusive Growth

Core reading:
Part III – WHAT CAN POLICY DO TO STABILIZE OUTPUT AND EMPLOYMENT?

Monday October 2: Introductions to Fluctuations

Core reading:
- Mankiw, chapters 7 and 10

Further reading:

Wednesday October 4: The Basic IS/LM Model

Core reading:
- Mankiw, chapter 11, 12

Further reading:
- “Murder Most Foul: When Periods of Economic Growth Come to an End, Old Age is Rarely to Blame,” The Economist, May 21, 2016
- Ip, Greg, “Why Soaring Assets and Low Unemployment Mean It’s Time to Start Worrying,” The Wall Street Journal, July 5, 2017 (there is also an accompanying podcast)

Monday October 9: HOLIDAY (no class)

Wednesday October 11: An Open Economy Model of Fluctuations I

Core reading:
- Mankiw, chapters 6, 13

Further reading:

Monday October 16: An Open Economy Model of Fluctuations II

Readings:
- SAME AS FOR OCTOBER 11
Wednesday October 18: MIDTERM EXAM

Monday October 23: Causes of the Financial Crisis and the Great Recession I

Core reading:
- Mankiw, chapter 20 (section 2)

Further reading:

Wednesday October 25: Causes of the Financial Crisis and the Great Recession II

Core reading:

Further reading:
- Bernanke, Ben, “Implications of the Financial Crisis for Economics,” speech, September 24, 2010

Monday October 30: The Basics of Monetary Policy I

Core reading:
- Mankiw, chapter 4 and 14

Wednesday November 1: The Basics of Monetary Policy II

Core reading:
- Mankiw, chapter 18

Further reading:
- Fischer, Stanley, “I’d Rather Have Bob Solow Than an Econometric Model, But . . . .,” speech, February 11, 2017
- Bernanke, Ben, “Monetary Policy and Inequality,” June 1, 2015
- Fischer, Stanley, “U.S. Monetary Policy from an International Perspective,” speech, November 11, 2016
• “QE, or not QE?,” *The Economist*, July 14, 2012

**Monday November 6: Central Banks and Financial Stability**

Core reading:

Further reading:
• Federal Reserve Bank of New York, *Financial Turmoil Timeline*
• Freixas, Xavier, Luc Laeven and José-Luis Peydró, “Systemic Risk, Crises, and Macroprudential Regulation,” VOX CEPR, August 5, 2015
• Svensson, Lars E.O., “Monetary Policy and Macroprudential Policy: Different and Separate,” conference slides, October 2015

**Wednesday November 8: Monetary Policy in a Low Interest Rate Environment**

Core reading:
• Bernanke, Ben, “How Big a Problem is the Zero Lower Bound on Interest Rates?” and “The Zero Lower Bound on Interest Rates: How Should the Fed Respond?,” blog, April 12-13 2017

Further reading:
• Congressional Budget Office, *The 2017 Long-term Budget Outlook*, (pp. 37-41 on interest rates)
• Brainard, Lael, “Navigating the Different Signals from Inflation and Unemployment,” speech May 30, 2017

**Monday November 13: The Basics of Fiscal Policy I**

Core reading:

Further reading:
• “What is the Keynesian Multiplier?” *The Economist*, September 7, 2016
• IGM Forum, “Economic Stimulus (revisited),” University of Chicago Booth School of Business, July 29, 2014

**Wednesday November 15: The Basics of Fiscal Policy I**

Core reading:

Further reading
• "No Short Cuts," The Economist, October 27, 2012
• "Sovereign Doubts," The Economist, September 28, 2013
• "Where Does the Buck Stop?" The Economist, August 13, 2016
• Sims, Shannon, "Brazil Passes the Mother of All Austerity Plans," Washington Post, December 16, 2016

Monday November 20: Long-run Consequences of Fiscal Policy

Core Reading:
• Mankiw, chapter 19
• Congressional Budget Office, The 2016 Long-term Budget Outlook, chapter 1

Further Reading
• Blanchard, Olivier J. and Jeromin Zettelmeyer, "Will Rising Interest Rates Lead to Fiscal Crises?" Peterson Institute for International Economics Policy Brief, July 2017
• Rivlin, Alice M., "Rising Debt—Not a Crisis, But a Serious Problem to be Managed," testimony, September 8, 2016

Wednesday November 22: HOLIDAY (no class)

Monday November 27: Monetary and Fiscal Policy in Europe

Core reading:

Further reading:
• “What is the European Union, Exactly?” The Atlantic, June 30, 2015
• Bernanke, Ben S., “Germany’s Trade Surplus is a Problem,” Brookings, April 3, 2015
• “Crisis and Opportunity,” The Economist, July 9, 2016


• Kirkegaard, Jacob Funk, “Is Italy Europe’s Next Big Worry?,” Peterson Institute for International Economics, March 21, 2017

November 29: REVIEW SESSION

FINAL EXAM [DATE TBD]