

SELECTED TOPICS in MACROECONOMICS

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Class Hours: Monday 15:00-17:50

Office Hours: Tuesday & Friday 15:00-17:00

Course Description: “Selected Topics in Macroeconomics” is a course for senior students designed by using various scientific and academic resources such as essays, articles, books and textbooks in economics to discuss and examine the analytical and theoretical issues in modern macroeconomics.

Course Instruction & Learning Objectives: This course requires individual as well as collective involvement of students in the classwork. Interactivity and dialog are crucial aspects for learning. There will be discussion sessions in every lesson where current economic issues are linked to the theoretical and historical background. Students are expected to read, analyse and interpret scholarly materials such as journal articles, essays and scientific books on economics.

Course Assessment: There will be two exams in each semester—a midterm exam and a final exam in each of which three to four questions will be asked. One of them may be an essay question. Scores of assessment will be graded out of 100 points and equally distributed for each question unless otherwise indicated. Enclosed please find a sample page of exam paper.

Course Attendance: Attendance is compulsory by the University regulations. An attendance list will be checked in for every course and in particular it will be reflected as sentiment of the instructor on the overall assessment of exam papers. Students are supposed to attend all the lectures.

Topics & Reading Materials

1. Classical Dichotomy: Fisher Equation and its Evolution

- Thaler, Richard H.: “Irving Fisher: Modern Behavioral Economist,” *The American Economic Review*, Vol. 87, No. 2, May 1997, pp. 439-441.
& some extra copies may be distributed in the classroom.

2. Monetary Neutrality and Quantity Theory

- Lucas, Robert E. Jr.: Nobel Lecture: Monetary Neutrality,” *Journal of Economic Theory*, Vol. 7, 1996, pp. 103-124.
& some extra copies may be distributed in the classroom.

3. Homogeneity Postulate

- Leontief, Wassily: “The Fundamental Assumptions of Mr Keynes’ Monetary Theory of Unemployment,” *Quarterly Journal of Economics*, Vol. 5(4), 1936, pp. 192-197.
& some extra copies may be distributed in the classroom.

4. Theories of Nominal Inertia as a Source of Monetary Non-Neutrality

- *General overview & some class discussions & some extra copies may be distributed in the classroom.*

5. Theory of “Informational Frictions”

- Lucas, Robert E., Jr.: “Expectations and the Neutrality of Money,” *Journal of Economic Theory*, Vol. IV, 1972, pp. 103-124.
& some extra copies may be distributed in the classroom.

6. Theory of Contracts

- Fischer, Stanley: “Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule,” *Journal of Political Economy*, Vol. 85, pp. 191- 205.
& some extra copies may be distributed in the classroom.

7. Theory of Menu Costs

- Mankiw, N.G.: “Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly,” *Quarterly Journal of Economics*, C.C, 1985, pp. 529-537.
& some extra copies may be distributed in the classroom.

8. Sticky Prices

- Ball, Laurence & Mankiw, N.G.: “A Sticky Price Manifesto,” National Bureau of Economic Research, Working Paper No. 4677, March 1994.
& some extra copies may be distributed in the classroom.

9. Theory of Expectations

- Muth, J.F. (1961), “Rational Expectations and the Theory of Price Movements,” *Econometrica*, Vol. 29, No. 3, July 1961, pp. 315-335.

10. Adaptive Expectations & Rational Expectations

- Lucas, Robert E., Jr.: “Expectations and the Neutrality of Money,” *Journal of Economic Theory*, Vol. IV, 1972, pp. 103-124.
& some extra copies may be distributed in the classroom.

11. Theory of Bounded Rationality

- Haltiwanger, J. & Waldman, M.: “Limited Rationality and Strategic Complements: The Implications for Macroeconomics,” *The Quarterly Journal of Economics*, C.CIV, No. 3, 1989, pp. 463-483.
& some extra copies may be distributed in the classroom.

12. Behavioral Economics

- Akerlof, G.A.: “Behavioral Macroeconomics and Economic Behavior,” *American Economic Review*, Vol. 92, No. 3, 2002, pp. 411-433.
& some extra copies may be distributed in the classroom.

13. Money Illusion & Inflation

- Howitt, Peter: “Money Illusion,” *New Palgrave: a Dictionary of Economics*, Vol. III, Ed. J. Eatwell, M. Milgate, and P. Newman, New York: W.W. Norton, 1987, pp. 518-519.

- Cagan, P. (1956), “The Monetary Dynamics of Hyperinflation.” In M. Friedman, (ed.) *Studies in the Quantity Theory of Money*. University of Chicago Press.
& some extra copies may be distributed in the classroom.

14. Money Illusion & Inflation, continued.

- Tobin, James: “Inflation and Unemployment,” *American Economics Review*, Vol. 72, No. 1, 1972, pp. 1-18.
& some extra copies may be distributed in the classroom.

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SAMPLE PAGE *of* MIDTERM EXAM

Q1- Discuss the differences between Real Bills Doctrine and Quantity Theory. (35 points)

Q2- What is New-Chartalism? Explain in terms of Modern Money Theory (MMT). (35 points)

Q3- Describe Homogeneity Postulate. Show if the following functions are homogeneous, and then indicate the degrees of their homogeneity. (30 points)

a) $f(x, y) = 2x^2y^{\frac{3}{2}} - 3x^4y^{-2}$

b) $f(x, y) = x^2y + 3x^4y^{-1}$

Time allowance: 50 min.