

PRINCETON UNIVERSITY  
 Department of Economics  
**ECONOMICS 101 THE NATIONAL ECONOMY**  
 Spring term 2002

Professor E. Bogan  
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Office: 109 Fisher Hall  
 Office Hours:  
     Tuesdays: 2:40 - 5:40 p.m.  
     Wed. 2:40 - 4:10 p.m.  
     Fridays 2:40 - 3:40 p.m.  
 Additional hours available by appointment

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Required Texts:

William J. Baumol and Alan S. Blinder, Economics: Principles and Policy, Eighth Edition (Harcourt Brace Jovanovich: 1999).  
 (Referred to below as B & B) The Sixth or Seventh Editions are also usable, but some chapter numbers differ. I've ordered the paperback for the bookstore but the hard back is OK too, but the pages are different.

Robert Frank and Ben Bernanke, Principles of Macroeconomics, (McGraw-Hill: 2001)

The texts are available at the University Store or can be used in the library

You are required to purchase a packet for the course. The packet is available from Pequod Copiers in the U-Store. The Packet has all the assignments.

As a source of current events, you are asked to subscribe to The Economist. Forms will be available in precept the first week of the semester. You may share a subscription if you wish. Several articles will be assigned from The Economist each week. If you wish to subscribe, bring a check made out to Elizabeth C. Bogan in the amount of \$17 to your first precept.

Black and white copies of the Powerpoint slides used in lecture will be distributed in class. The colored slides will be added to the course page on the WEB following classes.

### Course requirements and grading

The course requirements are weighted as follows in determining your grade:

Final examination	50%
Mid-term	35%
Problem sets & participation in precepts	15%

You are encouraged to discuss the problem sets with classmates, but the work you hand in must be your work. Any student caught cheating on any component of the course will automatically receive a failing grade for the entire course.

Reading Period: May 6-14, 2002

Review Lecture: Thursday, May 9, 1:30-3:30pm

### **LECTURE TOPICS AND READING ASSIGNMENTS FOR LECTURES**

**Please** read the assignments **before** the lectures.

**(Precepts begin Wednesday, February 6. See also Precept Assignment section of this Course Outline.)**

#### **Week 1**

Tuesday, February 5

Lecture 1:

- I. Introduction
  - Determination of a nation's output. Growth and fluctuation in that output. The government's role: monetary & fiscal policy.
  - Frank and Bernanke, Chapter 1
  - B&B CH 3 The Economy: Myth and Reality
  - B&B CH 4 Scarcity and Choice: The Economic Problem

Thursday, February 7

Lecture 2:

- II. Political Economy
  - A. Theoretical Socialism (Planned Economies) vs. Theoretical Capitalism (Market Economies) (or Karl Marx vs. Adam Smith)
  - B. Political dimension - elite group government vs. democracy.
  - C. The welfare state compromise -

Optional: B&B - CH 21 Comparative Economic Systems [is only in the 7th edition] (CH 38 in hardcover of 7th edition)

(The first precept is on B&B CH 5. Supply and Demand)

**Week 2**

Tuesday, February 12

Lecture 3: The realm and tools of economic analysis: Models, Theories and Evidence

Why do economists disagree?

Schools of Economic Thought

Preston Miller, The Rational Expectations Revolution,  
Introduction, (In packet)

B&B CH 1 What is Economics?

Frank and Bernanke, Chapter 5 Macroeconomics: The Bird's-Eye  
View of the Economy

Optional: B&B CH 6 The Realm of Macroeconomics  
(CH 23 in hardcover)

Thursday, February 14

Lecture 4: The measurement of GDP, GNP, and their components (mostly  
covered in precept)

Frank and Bernanke Chapter 6 Measuring Economic Activity: GDP  
and Unemployment

Economic Growth

Frank and Bernanke Chapter 8 Economic Growth, Productivity,  
and Living Standards

**Week 3**

Tuesday, February 19

Lecture 5: Economic Growth continued

Frank and Bernanke Chapter 9 Workers, Wages, and  
Unemployment in the Modern Economy

Frank and Bernanke Chapter 10 Saving and Capital Formation

Thursday, February 21

Lecture 6: China and South East Asia  
(slides)

**Week 4**

Tuesday, February 26

Lecture 7: Economic Growth: Lessons from around the world

Problems in Macroeconomics in the Short Run - Recessions and  
Inflation

Frank and Bernanke Chapter 12 Short-Term Economic  
Fluctuations: An Introduction

Thursday, February 28

Lecture 8: Keynesian Model of the determination of national income  
(It is really a model of aggregate demand.)

B&B CH 8 Income and Spending: The Powerful Consumer,  
(CH 25 in hardcover)

Frank and Bernanke Chapter 13 Aggregate Demand and Output in  
the Short Run

### Week 5

Tuesday, March 5

Lecture 9: B&B CH 9 Demand-Side Equilibrium: Unemployment or  
(CH 26 in hardcover) Inflation? including Appendix

B&B CH 10 Changes on the Demand Side: Multiplier Analysis,  
(CH 27 in hardcover) including Appendix A & Appendix B

Thursday, March 7

Lecture 10: Adding AS to AD to determine equilibrium output.

B&B CH 11 Supply-Side Equilibrium: Unemployment and  
(CH 28 in hardcover) Inflation?

B&B CH 12 Managing Aggregate Demand: Fiscal Policy,  
(CH 29 in hardcover) including Appendix

### Week 6

Tuesday, March 12

Lecture 11: AD-AS and review

**EXAM TUESDAY EVENING March 12, 7:30-9:30 p.m.**

Thursday, March 14

Lectures 12: Inflationary and recessionary gaps and  
Fiscal Policy

**SPRING BREAK**

**Week 7**

Tuesday March 26 and Thursday March 28

Lectures 13 and 14:

B&B CH 16 Deficits, Monetary Policy, and Growth  
(CH 33 in hardcover)

**Week 8**

Tuesday April 2 and Thursday April 4

Lectures 15 & 16:

Money and Banking and the Fed

B&B CH 13 Money and the Banking System  
(CH 30 in hardcover)

Frank and Bernanke, Stabilizing Aggregate Demand: The Role of the Fed

**Week 9**

Tuesday, April 9

Lecture 17: Keynesian, Monetarist and New Classical Theories of how changes in money supply and demand affect the economy.

B&B CH 14 Monetary Policy and the National Economy  
(CH 31 in hardcover)

B&B CH 15 The Debate over Monetary Policy [up to the section, "Debate: Should the Government Intervene?"]  
(CH 32 in hardcover, pp.661-676)

Thursday, April 11

Lecture 18: Phillips Curves, Expectations, and Business Fluctuations

B&B CH 17 The Phillips Curve and Economic Growth  
(CH 34 in hardcover)

**Week 10**

Tuesday, April 16 and Thursday April 18

Lectures 19 & 20: The Post-1960 U.S. Economy in an AD-AS and Phillips Curve Framework

One more look at stabilization policy - Rules vs. Discretion and related topics in Monetary and Fiscal Policy

Finish B&B CH 15 The Debate over Monetary Policy: Should the Government Intervene?

(CH 32 in hardcover, pp. 676 to end of the chapter)

Tom Stark & Herb Taylor, "Activist Monetary Policy for Good or Evil?" (in packet)

## **Week 11**

Tuesday, April 23

Lecture 21: International Trade

B&B CH 18 International Trade and Comparative Advantage  
(CH 35 in Hardcover)

Thursday, April 25

Lecture 22: Fixed and Fluctuating Exchange Rates

B&B CH 19 The International Monetary System: Order or  
(CH 36 in hardcover) Disorder?

## **Week 12**

Tuesday, April 30

Lecture 23: Monetary & Fiscal Policy in an Open Economy

B&B CH 20 Macroeconomics in a World Economy  
(CH 37 in hardcover)

Thursday, May 2

Lecture 24: Japan

## PRECEPTS/CLASSES

Preparation for precepts includes reading the lecture assignments and the short articles assigned in the packet as well as doing the problem sets. Precepts have several purposes. Some new material will be presented in precepts, but more often the emphasis is on answering your questions, reviewing the more difficult portions of the problem sets and discussing the topics indicated on your Precept assignments. The discussions will relate both to the short reading assignments in the packet and to topics from your text.

## PRECEPTS/CLASSES

Weds-February 6, Thursday, February 7

Topics: Supply and Demand  
Price Ceilings and Floors  
B&B CH 5

If you need more reading on supply and demand, see Bernanke and Frank Chapter 4

Discussion Questions:

- How are prices determined in competitive markets?
- How does rent control affect the availability of low cost housing?
- If the Government sets a price floor for peanuts grown in the US., what are the likely effects?

Weds-February 13, Thursday, February 14

**Problem Set #1 due in precept.**

"Notes from the Underground Economy" Business Week (in packet)

Topic: National Income and Product Accounting

Discussion Questions:

- How does GNP differ from GDP?
- What are 3 different ways of accounting for GDP?
- If GDP rises, is a nation necessarily better off?
- What is meant by the underground economy?

Weds.-February 20, Thursday, February 21

**Problem Set #2 due in precept.**

- "The New Economy" The Economist, (in packet)
- "The Outlook" The Wall Street Journal, (in packet)
- "Economic Growth" The Economist (in packet)
- "Sub-Saharan Africa: Learning What Works" The IMF (in packet)
- "Reforms Raise Latin American Growth" The NBER Digest (in packet)
- "Gender Economics" The Wall Street Journal (in packet)
- "The Other Government in Bangladesh". The Economist (in packet)
- "Is Democracy Bad for Growth" Business Week (in packet)
- "China's Economic Transition Strategy" China in the World Economy (in packet)
- "How Industrial Policy Caused South Korea's Collapse" The Wall Street Journal, (in packet)
- "Survey the Koreas" The Economist, (in packet)
- Fertility Rates Around the World", The New York Times (in packet)
- "An Economist Investigates the Irrationality of People", The Wall Street Journal, (in packet)

Topic: Economic Growth

Discussion Questions:

- Why do we care about productivity growth?
- What are some of the arguments for lending to women in underdeveloped countries?
- What initial condition was helpful in agricultural growth in China?
- What were major factors in South Korea's growth in the 1970s and 1980s? What growth oriented reforms has South Korea made since their recession of 1998?
- Is democracy bad for growth?

Weds.-February 27-Thursday Feb 28

**Problem Set #3 due in precept.**

- "Ignoring Cell Phones Biases CPI Upward" The NBER Digest, (in packet)
- "The Cause of Wealth Dispersion Saving at Retirement, Choice or Chance?", AEA Papers and Proceedings, (in packet)
- "Investigating Investment", The Economist (in packet)

Topics: Determination of Consumption, Investment, and Net Exports

Discussion Questions:

- How would you expect a sustained increase in the S and P stock market index to affect the consumption function?
- If people develop a new expectation that inflation will rise in the near future, what happens to the consumption function today?
- What is Venti and Wise's main point about wealth dispersion and what does it have to do with motives to save?
- Is the way the National Income and Product Accounts measure investment sufficient to predict growth effects of investment?
- Why do changes in expectations about the future strength of the economy affect investment spending?
- Why are our imports more sensitive to the state of the U.S. economy than our exports?
- How did the collapse in the exchange value of the currencies in Southeast Asia in 1997-98 affect U.S. net exports?

Weds-March 6-Thursday, March 7

**Problem Set #4 due in precept.**

Topic: The algebra of equilibrium income and the multiplier

**Midterm Exam Tuesday Evening - March 12, 7:30-9:30**

No precept Weds March 13 or Thursday March 14

**SPRING BREAK - MARCH 16-24**

Weds.- March 27 -Thursday, March 28

**Problem Set 5 due in precept**

Macroeconomics "Real Wage Rigidity"(in packet)

"A Depressed Labor Market as Explained by Participants", American Economic Review, (in packet)

"The Alternative Maximum Tax" The Wall Street Journal, (in packet)

"Where Deficit Reduction will Hit Home" Time (in packet)

"Higher Taxes, Lower Revenues" The Wall Street Journal (in packet)

"Capital Gains Tax Cuts Aren't Just for the Rich" The Wall Street Journal, (in packet)

"Will Power" The Wall Street Journal (in packet)

"High Income Taxes Inhibit the Growth of Small Firms" The NBER Digest, (in packet)

Topics: Adjusting to Inflationary and Recessionary Gaps  
 Wage rigidity.  
 Supply Side Economics

Discussion Questions:

- Under what conditions will an inflationary gap not self-destruct?
- Under what conditions will a recessionary gap fail to self-correct?
- How does the efficiency wage model explain sticky real wages?
- How do you think wages are determined?
- What does Barro mean when he says "Upper-income people are very 'responsive' to changes in the tax code?"
- What is the main point of the editorial, "Take Fairness Head-On"?

Weds.-April 3-Thursday, April 4

**Problem Set #6 due in precept**

"Growing Old Extravagantly", The Economist, (in packet)  
 "Over-regulating America" The Economist (in packet)  
 "Editor's Introduction", Federal Reserve Bank of St. Louis Review, (in packet)  
 "Latin Lessons on Pensions", The Economist, (in packet)  
 "Social Security: It's Not Broken, So don't Fix It" Economic Report, (in packet)  
 "Two Percent Personal Accounts Could Restore Social Security System" The NBER Digest, (in packet)  
 "Social Security May Get More Progressive" The WSJ (in packet)  
 "Tax-Cut Checklist," Time (in packet)

Topics: Taxes; Clinton's Budgets; Bush's Tax Cut; Social Security

Discussion Questions:

- What was the main economic argument for Clinton's Omnibus Budget Reconciliation Act in 1993? Have the deficits been reduced?
- Should Social Security be privatized?
- How is public policy related to early retirement?
- When should businesses be regulated?

Weds. -April 10-Thursday, April 11

**Problem Set #7 due in precept.**

Topics: Banking, T accounts, and U.S. monetary policy

Discussion Questions:

- Does the Fed directly control the money supply?
- How do open market operations affect the money supply?

Weds.-April 17, Thursday, April 18

**Problem Set #8 due in precept.**

G. K. Shaw Rational Expectations, pp. 1-8 (in packet)

"The Great Depression" from Bogan and Kiernan's Macroeconomics (in packet)

"Don't Blame High Tech for Europe's Job Woes" Business Week (in packet)

"South Africa Pay Packets" The Economist (in packet)

"Wall Street Moves Main Street" The Wall Street Journal (in packet)

Topic: Government Policy Toward Inflation and Unemployment

Discussion Questions:

- How does the Fed influence the Federal Funds Rate?
- Discuss recent monetary policy.
- According to Shaw under what conditions would rational expectations imply that monetary policy couldn't stimulate real output?
- On what does Becker blame high unemployment in Europe?
- What were the costs and benefits of reducing U.S. inflation in the early 1980s?
- What was the major cause of the Great Depression of 1930-1933?

Weds.-April 24-Thursday, April 25

**Problem Set #9 due in precept.**

"In the Debate about NAFTA, Just the Facts Please", The Wall Street Journal (in packet)

"High Tech Jobs for Sale" Time (in packet)

"The New Mercantilism", The Public Interest (in packet)

"A Case for Free Trade" Challenge, (in packet)

"Lamb Tariffs Fleece U.S. Consumers", The Wall Street Journal, (in packet)

"Dropped Stitches" The WSJ (in packet)

Topics:

The North Atlantic Free Trade Association

World Trade

China in the World Economy

The U.S. Trade Deficit

Discussion Questions:

- What is the theory behind the North American Free Trade Association (NAFTA)?
- What are the results of NAFTA?
- What interest groups in the U.S. oppose quota-free and duty-free imports from sub-Saharan Africa?
- How has China's role in world trade changed this past decade?
- Where does a nation's comparative advantage come from?
- In "The New Mercantilism" Charles Wolf argues against strategic trade policy. What is the essence of his argument?
- Why did the U.S. trade deficit rise in 1998? Is a trade deficit bad?

Weds.-May 1 - Thursday, May 2

**Problem Set #10 due in precept.**

"The Consequences of the Euro", Challenge, (in packet)

"Crisis in Europe's Exchange Rate Mechanism" (in packet)

"A Warning Light Largely Ignored in Thai Currency Crisis", The New York Times (in packet)

"End of the Miracle: Exploring the Asian Financial Crises" The Brookings Review, (in packet)

"The Asian Crisis, The IMF and the Critics" EEJ (in packet)

"Economic Anorexia: Japan's Real Demand Problem", Challenge, (in packet)

The yen: Let it Fall?, The Economist (in packet)

"Adding up the Effects of Globalization" NBER working paper 8228 (in packet)

Topics:

The European Monetary System  
The Asian Financial Crises  
Japan

Discussion Questions:

- What is the Euro?
- What are the advantages of the Euro? What are the disadvantages from the perspective of nationalism?
- What happened to the Mexican Peso in December, 1994?
- What happened to the Thai baht in July, 1997? How did that affect Malaysia, Indonesia and South Korea?
- What is happening to Japanese GDP in 2002?