

## ECON 1150 Honors Macroeconomics Course Calendar Fall 2013

Updated January 1<sup>st</sup> 2013 (hit refresh to get the latest version).

**Office hours:** Monday & Thursday 5:30-6:30pm (sometimes we start in 208 Keating) and Wednesday 9:30-10:30pm (sometimes we start in 207 Dealy) or by appointment in E527 Dealy Hall. Please make/confirm appointments via email [mcleod@fordham.edu](mailto:mcleod@fordham.edu) if you can list the course number in the subject line of your email; my cell number is (914-661-6998) my office phone 718 817-4063 works if I am in my office, but messages to this phone don't work, leave messages at x4045 or x4048 or better yet send me an email. From time to time we will use [www.turnitin.com](http://www.turnitin.com) (course # 6883782, password Mario) to gather assignments in one place, don't worry about your originality score, in fact it always makes sense to start your answer by pasting the text of the question you are answering (e.g., part 1b) just above your answer. Some readings are online, linked to this calendar for example, if you have a problem with accessing any reading/video, please let me know by email, typically I can fix it quickly. We will have two midterms (25-30 points) one September 30<sup>th</sup> the 2<sup>nd</sup> Midterm will be October 31<sup>st</sup>, the final exam is Thursday December 12<sup>th</sup> 1:30pm.

Dec-13

Sun	Mon	Tue	Wed	Thur	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31	1	2	3	4

**January 1<sup>st</sup>: Happy New Year!** Here are the [grades for the final exam and the course](#), with almost everything in evidence, sorted by student # with your course and final exam grades. Three people had serious problems with the final exam; other than that you did a great job. Most people improved on their projected grade, which is the idea. If you do have a question about your grade, or even if you don't, I wish you would take a look at [the answers](#) to the final exam (once you do this, I can post or send you more details on the various parts of the final exam. I have to submit these grades by 3pm January tomorrow latest, so please check them to make sure everything checks out.

**December 18<sup>th</sup>: Extra credit special topic paper** can raise your overall grade by up to five points and can be helpful if you are on the line. There is a turnitin.com assignment available for this EC paper. *Please follow the format recommended carefully, summarize pros and cons, being fair to both sides. Be sure to make use of something you learned from this course, cite readings especially the texts Mankiw, Blinder or Krugman and various online articles (with this warning, all the Walmart papers would receive zero, as the new Mayor got lots of attention, but economists Mankiw and Krugman were ignored, and as if to bring home the absolutely not economics point, the efficiency wage hypothesis is misinterpreted. Similarly, don't write about the financial crisis or Dodd Frank without extensive reference to Blinder, 2013. Many wrote nice research papers, but with one exception there was absolutely no evidence they attended a lecture or did any readings for this course (this is why we cancelled the Special Issue presentations). This is good advice going forward: never submit a paper for a course which does not make use of course readings or lectures, it defeats the purpose of any class paper assignment. With the internet everyone knows everything, what you have to demonstrate is that you absorbed some knowledge from a particular course. The length should be about 800 words half summarizing pros and cons and half with your newly informed views on this debate. Evidence in the form of data tables, pictures, figures makes a huge difference, even in the paper again with sources clearly indicated. You may even want to use diagram since this is how economists express themselves (supply and demand for labor? or ...?). Do end with references to readings outside of class material (e.g. Blinder, 2013 chapter 4 page?) . The originality indicator will be used for this assignment; do not duplicate the words of others without proper attribution.*

We will close off turnitin.com submissions Friday midnight (more to the point, they will not get added into your grade). Most of you have more than 10 points anyway, so this is a non-issue. There will still be time to turn in your EC special issue paper, you can do any topic you want from the list we discussed (see the last final exam). We have too good to be true "scandal" relevant to the Walmart topic (above and beyond Eduardo Porter's excellent NY Times column on the "Americanization" of European labor markets. At it happens, Jason Furman, now President Obama's Chairman of the Council of Economic Advisers, confirmed by the U.S. Senate on August 1, 2013 wrote an article at the center for American Progress (a left-wing think tank) that has become quite controversial. The title was and is "Wal-Mart: A [Progressive Success Story](#)" laying out the entire EITC-wage subsidy strategy, it all its glory (higher wages for targeted groups, mainly parents with children, and low prices for customers).<sup>1</sup> What Mayor

<sup>1</sup> The rest of Furman's CEA bio, "Prior to this role, Furman served as Assistant to the President for Economic Policy and the Principal Deputy Director of the National Economic Council. From 2007 to 2008 Furman was a Senior Fellow in Economic Studies and Director of the

elect De Blasio sees as subsidies to Walmart (they are in way) he sees as a way to end “welfare as we knew it” (paying people not to work). By supplementing wages with EITC payments (about \$3/hour) healthcare, food stamps, childcare and sometimes housing subsidies, this strategies provides entry level jobs to about 400,000 people a year (given Walmart’s 37% turnover rate—about 10% higher than normal due to ACA, as we discussed in class). Now times have changed and Furman finds himself under attack from the far left (but Economists still love him,... mainly because of the employment benefits to the poor and inexperienced... as [Krugman \(1997\)](#) put it during the Clinton years, “bad jobs at bad wages are better than no jobs at all...” would he agree his younger self today? Probably, unemployment is still over 10% for those without HS degrees...).

Inequality, median wages and Immigration: Jason Furman replaced Alan Krueger, popularizer if not inventor of the [Gatesby Curve](#) linking mobility and inequality. Krueger (now back at Princeton) gave a famous speech at the very same Center for American Progress on “[The Rise and Consequences of Inequality in the United States](#)” following an even better titled speech in Cleveland OH, called “Land of [Hope and Dreams: Rock and Roll, Economics, and Rebuilding the Middle Class](#)” Krueger provides an academic backdrop for President Obama’s recent speeches on what to do about inequality and mobility (which includes raising the minimum wage. You can also read reviews and summaries of “inequality for all” (the youtube version of the film we had tickets for comes and goes). One caveat, whenever you see someone talk about “media family income” or “median wages” as proxy for how the middle class is doing watch out. When you have migration of less skilled workers into the bottom quintiles of the income distribution, the median family moves down, and you are not following the same households over time. This happens to be exactly what has happened in the United States, since the Kennedy brothers ended race based immigration quotas with the 1965 Immigration and Nationality Act, or the Hart-Cellar “family reunification” Act (one of the most important bills Kennedy/Johnson passed, sponsored by Hart and Rep. Emmanuel Cellar of Brooklyn). After 1970 the share of the foreign born steadily rose (see Census Figure 1 below) back to Ellis Island (1911) levels. Most of these new immigrants came from Latin America, many entering urban low wage service and construction jobs (and manufacturing or agriculture as well). The arrival of many new Hispanic immigrants has populated the lower half of our income distribution, raising native wages for the reasons we discussed in class (see [Peri, 2011](#) and lecture notes on [immigration reform](#), and/or a summary of the CBO report). As it happens, non-hispanic (black and white) wages have risen, while Hispanic male wages have fallen since 1990 (mainly due to competition from other immigrants). Inequality is higher, but this is win, win, win: Non-Hispanic media wages have risen (see Scott Winship, 2012 Brookings for some charts like Figure W-1 you can grab if you want to. Wages have gone up if you just use a correct CPI deflator, a chain index or PCE and adjust for tax free benefits... Yet the wages of Hispanics (40% of whom are foreign born) are much higher than they were or are in Mexico or Guatemala. Native wages are higher, especially where natives work in the same place (company) as immigrants, see [Peri, 2011](#). And finally the median family has changed (so we are not comparing apples to apples), we have moved down the distribution and new arrivals entered at the bottom end (and the top end, see the [Dallas Fed charts in](#) the lecture notes. Inequality is higher, but no one is worse off. As Mark Zuckerberg emphasized, immigration is the civil rights issue of our time. Closing the circle, advocates of the minimum wage [on the far right](#) (Bruce Bartlet’s recent column in the NY Times) are hoping stop this integration process by outlawing low wage jobs (those that immigrants take, but not at Walmart of course, that is already against the law thanks to E-verify, except in Minnesota, thank you Al Franken). Both the far left and the far right (in California) have joined to raise the minimum wage dramatically, perhaps for the wrong reasons. It may happen, but hopefully in moderation. All you have to do is list the pros and cons... as related to Walmart (food prices) and/or inequality and immigration.

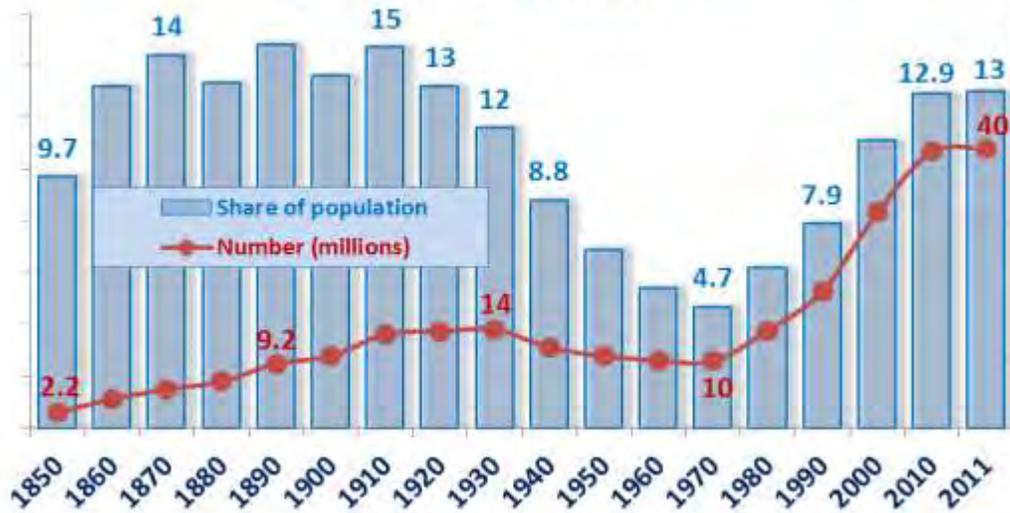
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Hamilton Project at the Brookings Institute. Previously, he served as a Staff Economist at the Council of Economic Advisers, a Special Assistant to the President for Economic Policy at the National Economic Council under President Clinton and Senior Adviser to the Chief Economist and Senior Vice President of the World Bank. Furman was the Economic Policy Director for Obama for America. Furman, who earned his Ph.D. in economics and a M.A. in government from Harvard University and a M.Sc. in economics from the London School of Economics, has also served as Visiting Scholar at NYU’s Wagner Graduate School of Public Service, a visiting lecturer at Yale and Columbia Universities, and a Senior Fellow at the Center on Budget and Policy Priorities. He has conducted research in a wide range of areas, including fiscal policy, tax policy, health economics, Social Security, and monetary policy. In addition to numerous articles in scholarly journals and periodicals, Furman is the editor of several books on economic policy, including *Path to Prosperity* and *Who Has the Cure*.”

**Figure W-1**

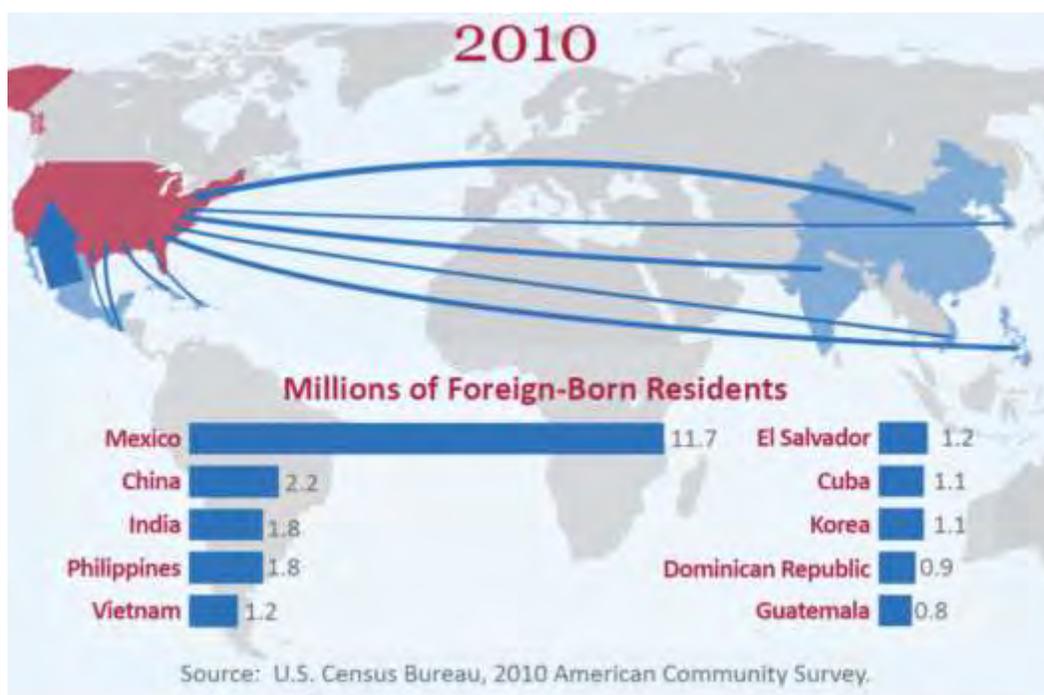
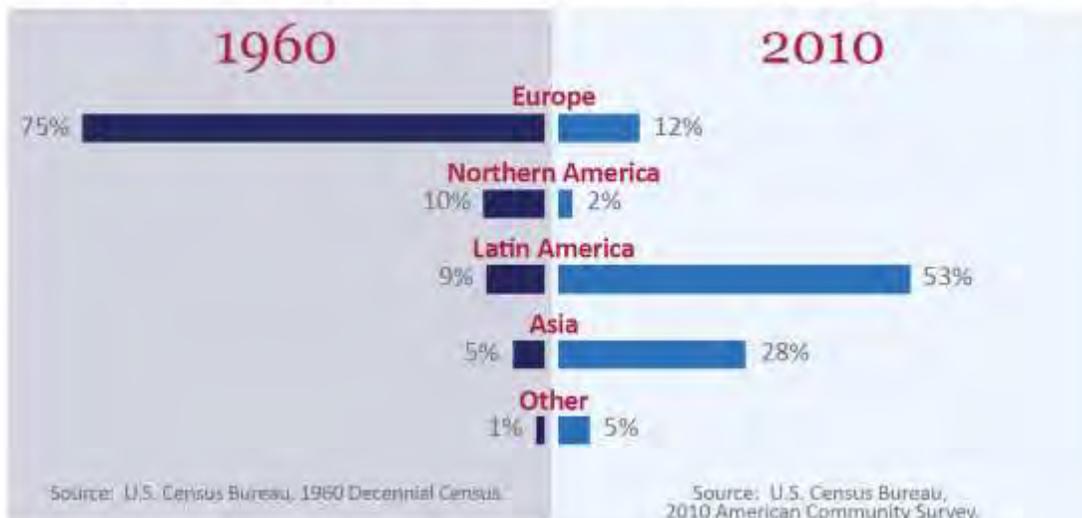


**Figure 1: Foreign born share of U.S. population returns to 1920 levels**



Source: Source Migration Policy Institute MPI Data Hub, November 2012,  
<http://www.migrationinformation.org/datahub/charts/final.fb.shtml>

## Change in Foreign-Born Population by Region of Birth



**December 11<sup>th</sup>** The final exam is December 12th 1:30pm in 304 Dealy Hall (our original room). The test will have four sections (see the final, [final review sheet](#) for more details) **section I multiple choice** (15 points) will come largely from Quizzes 3-5 and practice quiz 6. Here are answers to [Quiz 3](#) [Quiz 4](#) [Quiz 5](#) and [practice quiz 6](#). **Section II will be very short answer (5 points)** almost fill in the blank, taken largely from EC short answer questions on Quizzes 3-5. **Section III will be short essays (5 points)** with some also from EC quiz questions and **section IV Longer essays, 10 points** (see the [final review sheet](#) for topics). One long essay can be your own pro and cons key issue. For this last essay you may bring Figures, pictures and references (but no text) with you to the exam, see [special topic instructions](#) and examples as well as the notes on debt and growth. There is even a handout with material you do not need to know, namely the [wonkish and unimportant IS-LM and IS-MP](#) material from Krugman and Romer's blogs (you actually know all the components of these diagrams, go ahead; use these to impress your friends, though you may lose a few...).

*Of course there is one important question I forgot to put on Quiz 6, which of the Federal Reserve governors list in the lecture notes (taken from the NY Times) reduce the misery index the*

**most? How did they do it? Why do we still love Ben and Janet the most (seriously)? Super Mario Draghi\* is still the best, so far, but Professor Bernanke is right up there. Our best wishes to Professor Yellen (may the force be with her), and to all of you of course, on this final and all your others.**

**What happened to Quiz 6? Where are the answers to Blackboard practice Quiz 6?** (answer: [here they are](#), sources Chapter 22 and lecture notes). Optional Quiz 6 will be built into the final exam: there will be questions (marked with a \*) that together will count both toward the final exam and Quiz 6 (just as we did on quiz 3 and 5). There will even be a little EC question you can do just for quiz 6 (nice!). Again, the questions which also count toward quiz 6 have a star (\*). Your score on Quiz 6, which everyone will have if they answer the \* questions on the final can replace your lowest quiz grade. Your score on Quiz 6 cannot reduce your grade, but it can raise it a bit.

**December 5, 2013:** The test will have three sections: section I multiple choice will come largely from Quizzes 3-5 (see answers posted below). Here are [Quiz 3 answers](#). Section II will be short answer, taken largely from EC short answer questions on Quizzes 1-3 (see review sheet). Section III Longer essays will be chosen from posted topics, see the [final review sheet](#), or you can summarize your pros and cons key issue report, bringing Figures, pictures and references (but no text) with you to the exam, see [special topic instructions](#) and the notes on debt and growth. Notes on [debt and growth topic](#).

**Extra Credit papers:** Strictly speaking it is too late, but subject to strict limits and formats outline below, you can post your Pro and Con question on Turnitin.com after the final exam. Please clear your topic/article film with me in advance of submitting the paper (by email or during a review session) There will also be a place for EC papers, but follow the format instructions carefully strictly (Three sections, a summary of approved video or art; its relevance to course readings/lecture and your synthesis/conclusions all sections 1-2 pages single spaced, complete with references in APA format, this EC paper should be done after the final as it is worth up to 5 points and the final exam is 35 points, don't do the EC paper during finals week, turn it in once you finish your final).

**Key Issues final Essay:** You can still write up your key issues debate topics as a question on the final exam. Here are very specific instructions and [examples, from the text and class](#). Everyone must follow the format of Chapter 23 and the New York [Times NAFTA debate](#) as discussed in class. Pro: whatever 500 words with a few references and pictures. Con: 500 words or so with a few references and pictures. During the final exam, you will have limited time so use lists as in these examples for China is our friend (attached). The Mankiw text page 516 for example, writes out each position in three paragraphs. If you decide to do the key issues debate question on your exam, bring your references, neatly typed and your Figures, Pictures or Tables (nothing else) to the final exam session. Turn them in before you start the exam. Finish the rest of the exam, turn it in, then take a separate exam book to write up your prepared pro and con question, since there is only you now you must summarize pros and cons, then take a stand (briefly) as a conclusion.

**Final exam December 12<sup>th</sup>** 304 Dealy Hall, 1:30pm (check time and place, they may change it): For the final exam, review the quizzes we have had since the midterm, quizzes 3-5 (#3 and #4) counted as double quizzes, 10 points, in part to replace the 2<sup>nd</sup> midterm (see all your quiz grades [here](#), as requested, sorted by student number, with lowest score dropped, the [answers to quiz 5 are](#) here as well). See also the [Quiz 4 answers](#), one shot essay on on deflation and liquidity crises, Krugman Chapters 2,3 & 10, one essay on Colbert-Reinhart & Rogoff Herndon national debt controversy (multipliers greater than one) on essay on GPB vs. Mario Draghi (see Blinder, p. 424-26, Chapter 2, 4\* and 16). You can choose 2 of these 3 essays, if you write your project/group essay as well.

**Quiz 5 Monday November 25<sup>th</sup>,** here is [version 2 of Quiz 5 review sheet](#), please review before Thursday (see [lecture notes](#) on CSM and on [Chapter 22](#), but see review sheet for Quiz 5 material), answers to practice questions for Chapter 20 and 21 are provided on the review sheet. In reading chapter 21 focus on fiscal policy and the multiplier. The 2008-2009 actually works in the SRAS-AD framework (we had deflation in 2009, no?) Chapter 22 and the IS-LM and IS-MP diagrams will be reviewed after Thanksgiving covering Chapter 22. Quiz 6 may taken for credit December 9<sup>th</sup> at 2:30pm during our regular class time and place. The Final Review session will be 9:30pm December 11<sup>th</sup> in E530 Dealy Hall. Quiz 6 and the review session should help you prepare for the December 12<sup>th</sup> final exam, which covers only the material since Midterm I.

**Monday November 18<sup>th</sup> Quiz 4 covers material in practice quizzes (blackboard) and LDQ questions 18-1 to 18-3.** Here are answers to all except 18-3 (word version, do 18-3 only for makeup, but only if you got a 0 or a 1). Here are the answers to the practice quizzes, when we put the text together we choose multiple choice (one answer) or multiple answer (which is LATA) but when I took the test online I could not see this. In the future, we can include MA or MC. In this case the number of points equaled the number of answers, but this is too easy, a LATA exam question will not list the number of correct answers (that is part of your answer). WSJ Latte Diagram

**For the next LDQ assignment (if there is one).** Going forward be sure to use make your answers look exactly like the answers, use two colors only (although you can use highlight, as in these answers. The best way to do this, is to start with the word version of the homework questions. Only two people had formatting problems and two content problems with this homework. For formatting see the answers posted. For the make-up, use the word version of the answers file and add answers to question 18-3. For content problem, remember that the point of the LDQ questions is to show you were at the lecture and did the readings. Recall in the lecture we answer the Oslo and Moscow question (they are oil exporters, and the price of oil was high when the WSJ did its Starbucks survey). Use quotes from the McKinsey article and or Krugman, 2012 for example to show you did the reading. Answering the questions w/o doing the reading has negative value, for everyone. If you have not done the reading, just don't hand in that homework. Use citations, page numbers, pasted in quotes to make it clear you have done the reading.

**Thursday November 14, 2013:** [Chapter 20](#) & [Chapter 21-22 Lecture Notes](#). **Quiz 4 rescheduled to Monday November 18<sup>th</sup>,** mainly because the practice Quiz for Chapter 19 did not “deploy” until very early this morning, it said it was deployed Tuesday, but evidently it was not. Some of you may have seen it and take it, but others may have been too busy with other obligations. The LDQ questions for Chapter 19 are still due on Saturday latest so we can post the answers. Quiz 4 will be 25 minutes, 10 points, with questions taken from both the lectures (LDQs) and from the text Chapters 18 page 395 QFR #5 P&A #4, #6, #7 (use the term appreciate and depreciate rather than rise or fall) and #8. There is no need to turn these questions in, use them to review for the quiz (answers will be posted Saturday). See also [Chapter 19 page 418 QFR #4 and P&Q #1, 2, and #10](#) (forget #11 too complicated, though Canadian workers will gain, American workers lose, except that...).

Miscellaneous fun stuff: [Krugman on Austerity](#), [Colbert on Austerity](#), [Romer on Mankiw](#), the new edition, [Krugman on Phantom Crises](#). More to the point, for us, a “baby sitter” liquidity crisis: A “story was first told in a 1977 article in the Journal of Money, Credit and Banking, written by Joan and Richard Sweeney, who lived through the experience, and titled “Monetary Theory and the **Great Capitol Hill Baby Sitting Co-op** crisis.” The Sweeneys were members of a babysitting co-op: an association of around 150 young couples, mainly congressional staffers, who saved money on babysitters by looking after each other’s children. The relatively large size of the co-op offered a big advantage, since the odds of finding someone able to do babysitting on a night you wanted to go out were good. But there was a problem: how could the co-op’s founders ensure that each couple did its fair share of babysitting? The co-op’s answer was a scrip system: couples who joined the co-op were issued twenty coupons, each corresponding to one half hour of babysitting time. (Upon leaving the co-op, they were expected to give the same number of coupons back.) Whenever babysitting took place, the babysittees would give the babysitters the appropriate number of coupons. This ensured that over time each couple would do as much babysitting as it received, because coupons surrendered in return for services would have to be replaced. Krugman, Paul (2012-04-30). End This Depression Now! (pp. 26-27). Norton. Kindle Edition.

**Special Issue topics: Monday November 18<sup>th</sup>** by the end of the day: Sign up for a special issue topic. During the Thanksgiving break you will do one reading (or watch a video related to your topic. Everyone’s contribution will be integrated into a single document, the key issues will be debated (in private or in front of the class) and a single page “issue paper” will be produced. There are 22 of use, three groups will have 4 members, and two groups will have five members. You can pick your group by “joining” a Forum (thread) on Blackboard, or I can assign you to a group. One output will be the 4-6 page issue paper produced by each group, another will be an essay you write yourself on the final exam. On the final exam you can write a “dissent” or defend the majority issue on each question.

1. **Janet Yellen’s Federal Reserve:** she was a hawk, then a dove, what will her Federal Reserve be? People complain that Ben was too much of a consensus builder, his Fed was not as aggressive as it might have been (2% or 4%).
2. **Box stores, wages and living standards:** why New York (and Chicago) outlaw Walmart (pros and cons). Critics complain Walmart hurts small stores, is anti-union and promotes unhealthy lifestyles. Others appreciate its low prices.
3. **Issue 3: Inequality, immigration and the Middle Class.** Latin America's middle class is growing, the U.S. middle class is shrinking. Is there a connection? (or is this even true?) Is immigration reform good for our economy? Short term, long term? Has the recent surge in our immigrant population lead to more inequality in the U.S. Is this good or

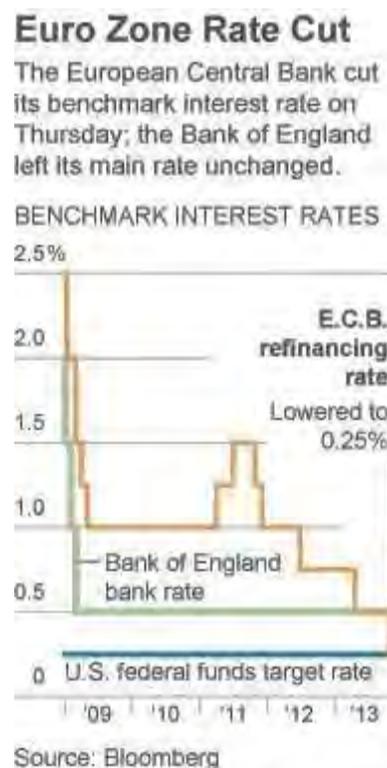
bad? Why. I have lots of good (short) readings on this. Most immigrants since 1980 have been Hispanic, so let's look at wages and living standards for non-hispanics (white and black) and Hispanics. The Hispanic share of the labor force has grown from 7% to 22% in just 35 years, starting about when inequality started to increase... Oh Oh!

4. **Is China our friend?** A match made in heaven, or headed for divorce?
5. **A GFC started in New York City?** Why did the global financial crisis (GFC) start in nice city like NY? Why has recovery taken so long? Who should be punished, and when? What about New York? Are we killing the golden goose/turkey?

**Monday November 11<sup>th</sup> (Veterans Day):** The lecture notes are inside the [LDQ for Chapter 19, word version](#) only the appendix mapping of the Metzler diagram to the Loanable funds diagram will be on the quiz. The LDQ 18 is due on Wednesday, LDQ 19 is due Friday, see also the blackboard review quizzes for Thursday's quiz 4 on the open economy.

**Thursday November 14<sup>th</sup>** (not Monday November 11<sup>th</sup>): Quiz 4 on Open Economy Chapters 18 & 19: 20 minutes, similar to Quiz 3 except you have five minutes. Use Blackboard quizzes posted Friday and [LDQ 18 Questions for review, \(word version\)](#) LDQ questions draw on lecture notes ([pptx](#)) and [exchange rates \(real exchange rates\)](#) not that important if inflation is low).

**Flat liners: November 11<sup>th</sup>** Mario Draghi unexpectedly cut the [ECB's refinancing rate](#), fearing deflation after Euro inflation falls to just .7% (U.S. inflation declined to 1.5%). Both rates are within shooting distance of 0 (after that deflation). Both regions are experiencing **disinflation** due to high unemployment (especially in the EU proper where unemployment is still rising). Disinflation is not as bad as deflation, but it is not good (look at the U.S. FF rate, it has been "flatlined" for four years....). The diagram at right was published with the [NY Times](#) story, which opens with: *"FRANKFURT — In an unexpectedly swift reaction to economic warning signals, the European Central Bank cut its benchmark interest rate to a record low on Thursday, moving to head off what some economists fear could be a long period of stagnation like the one that has afflicted Japan. The cut in the E.C.B.'s main rate to 0.25 percent from 0.5 percent took many analysts by surprise, and seemed intended to reinforce a vow last year by Mario Draghi, the bank's president, to do "whatever it takes" to preserve the euro zone. The central bank was reacting to a sudden drop in euro zone inflation, which fell to an annual rate of 0.7 percent in October, well below the bank's official target of about 2 percent. The decline raised the specter of deflation, a sustained fall in prices that can destroy the profits of companies and the jobs they provide. Mr. Draghi insisted that the E.C.B. was not expecting such a catastrophic situation. "If we mean by deflation a self-fulfilling fall in prices across a very large category of goods, and across a very significant number of countries, we don't see that," he said at a news conference. "I don't think it is similar to Japan."*



**November 7<sup>th</sup>:** [Review Quiz 3](#), review international lecture notes (RER and capital flows), begin discussion of Chapters 20 & 21, Macroeconomic Policies, per 2009. Makeup options for Quiz 3 (short answer) posted on November 11<sup>th</sup> (or after quiz 4).

**November 4<sup>th</sup>:** Quiz 3 covers Chapters 16 and 17, money and inflation. Here are [answers to LDQs on employment](#) and inflation (assignment 5) [practice test](#) (pdf) [Chapter 16 \(docx\) answers to Chapter 16 practice test](#). There also shorter practice quizzes on blackboard for both chapters. The Blackboard test corrects itself. Ignore question 11 on the chapter 17 test, the

answer is "transactions per dollar increase so the price level rises." You may be able to see this using the velocity formula,  $V = (P*Y)/M$ . If  $V$  rises something on the RHS has to increase too, but according to the quantity theory  $Y$  and  $M$  are fixed so only  $P$  can rise, "other things the same" excludes  $P$ , but this may not be obvious, so ignore this question (but not the formula for the velocity of money, or the money multiplier  $M = 1/R$ ). Of course the formula for  $V$  comes from the quantity theory of money formula  $M*V = P*Y$  where  $P*Y$  is nominal GDP and  $Y$  is real GDP and  $M$  is  $M1$  or  $M2$ .

**Important:** Here are some [additional L&D questions](#) docx or [pdf](#) related to Chapter 17, including the latest inflation report (1.5% September 2013 over September 2012). You can turn these in on turnitin.com, end of day Saturday if you need HW points, your answer briefly and directly, I will try to post comments so you can view these before class Monday. Whether you turn them in or not, use these questions to review for Monday's quiz.

**November 7<sup>th</sup> or 11<sup>th</sup>** Quiz 4 covers Chapters 18 and 19 on Open Economy Macroeconomics, see lecture notes on capital markets and the exchange rates. Practice tests will be posted Friday Monday November 4<sup>th</sup> latest (on Blackboard and here). [Lecture Notes on Chapter 20](#) or <http://class.povertylectures.com/MankiwChapter20LectureNotes.pptx> pptx and [the debt crisis](#).

**October 28<sup>th</sup> in class:** Lecture notes on [Chapter 18 & 19 First Trade and Capital Flows](#). Then [Real and Nominal Exchange](#) rates. Mankiw use the term net capital outflows (NCO) but governments (and the IMF and World Bank) report an equivalent statistic known as the current account which by definitions equals the change in the capital account (our net foreign asset position as a nation) see for example this recent report in [Bloomberg](#). The main component of the Current Account (CA) is net exports (NS). Nations can trade in goods and services, and they can trade assets (FDI, stocks, etc.). This statistic reflects the extent to which the U.S. is a net investor or a net borrower on international markets (unfortunately it is both). A second less important topic is real and Nominal Exchange rates. The [big Mac index](#) is much improved, [with an interactive](#) index, though not exactly transparent (mainly because as the Economist points out, Big Macs are not traded (also people now prefer vegetables and fresh fruit). Note what happens when you switch back and forth between the "raw index" and the "adjusted index." Always remember the U.S. somewhat unique because of its "[exorbitant privilege](#)" (almost as good as "irrational exuberance" thank you 1960s French Finance Minister Valéry Giscard d'Estaing).

[Really Havan box stores in Brazil...](#) an ascendant but not quite mobile Brazilian middle class

The day that Lehman died, <http://www.bbc.co.uk/programmes/p0043kcq>

Christine Romer, the Fed Ben Bernanke time man of year, "Fed did exactly what a Central bank is supposed to do" <http://www.pbs.org/wgbh/pages/frontline/oral-history/financial-crisis/christina-romer/>

Teri Duhon, at JP Morgan (Chase bought JP Morgan in 2000). <http://www.pbs.org/wgbh/pages/frontline/oral-history/financial-crisis/teri-duhon/>

Helicopter Ben <http://www.federalreserve.gov/newsevents/speech/powell20130627a.htm>

Inequality Reich documentary A TED Talk Nick Hanauer <http://www.youtube.com/watch?v=iIhOXCgSunc>

2<sup>nd</sup> Round survey required....will post Tuesday, please send other suggestions by email, I will create final 6-7 group topics. There will be a group short essay or powerpoint (optional) due right after Thanksgiving break, then you will write short essay on the final exam regarding your case study (so a group part, and an individual part to avoid collective action problems).

**October 28<sup>th</sup>:** I will post midterm components in the same format as projected grade (if you want me to) [Part 2 Answers](#) (online) [Part 1 Answers](#) (in class) and see more detail re your midterm grade here (by [student ID number](#), first 7 digits). Be aware of "Relative Deprivation" see last 15 minutes of Malcom [Gladwell's talk at Google Zeitgeist](#) ... [Larry Summers](#) is excellent too, he is right we should have fixed JFK airport, it is embarrassing to all of us. With so many of unemployed construction workers didn't we fix it? Which reminds me of the Steven Colbert's shows on "[Austerity's Spreadsheet Error](#)" found by [Thomas Herndon](#) (and his girlfriend). [Eric Schmidt](#) is good too.

**For October 22<sup>nd</sup> 2013:** Choose your top three key economic issues (see list below, and [here](#) for further information). We will return and briefly review midterm I this Thursday (unless we have an in class quiz 3). Full answers to questions people answered are [here](#). See also the videos. If any links on these answers (or on the exam) do not work, please let me know immediately via email. There are many ways to watch videos, as you know. So if one method does not work we can try another. The Ben [Bernanke videos](#) for example, are vital to answering the

homework questions. If you have trouble watching or finding them, please let me know. Fordham does its best, but sometimes even watching a short video can be a challenge, as we learned in class.

**October 21<sup>st</sup> 2013** No Quiz 3 Monday due to technical difficulties. Salvatore, please check the echo recording on Blackboard, it may be a mess because the main overheard project did not work so we had to use the smart board (sic). We will give Hughes 313 one more chance; the technology and room are beautiful but that also means more things can go wrong. Please make sure you can answer these [questions about monetary policy](#) and [employment](#) under “Helicopter Ben,” use the links to Bernanke interviews in [the lecture notes](#) to answer these questions. **Turn in your answer to LDQ-16-1 and LDQ-15-2 on October 24<sup>th</sup> or 25<sup>th</sup> on turnitin.com.**

**October 17<sup>th</sup> 2013** D-Day +1 (saved Congress at the 11th hour!) what a great time to be studying [Unemployment \(chapter 15 pptx\)](#) and [Monetary Policy \(Chapter 16 pptx\)](#). Check back here for homework, depending what we cover in lecture today. Also check out the lecture, it should be on Blackboard in with 24 hours of each lecture.

**To celebrate the Nobel prizes in finance and Inequality for all at the Angelika in Soho/West Village this Thursday will be moving to a nice new room, 313 Hughes**, where the last hour of the class will be recorded by the new Echo system (let’s not get an explicit rating....). It is my hope that the recording will not discourage questions, comments and puzzled looks, if it does we can turn it off...

**We have free tickets for the class**, courtesy of the producers, but please reserve your tickets on eventbrite (click graphic to left?) will also send email invitation. to a screening of ***Inequality for All Thursday, October 17, 2013 from 7:00 PM to 8:30 PM New York, NY | Angelika Film Center & Café 18 W Houston Street at Bleeker NY, NY 10012*** *The heart of the film is a simple proposition: what is a good society, and what role does the widening income gap play in the deterioration of our nation's economic health? We are endeavoring for INEQUALITY FOR ALL to be a paradigm-shifting, eye-opening experience for the American public. We want to accurately show through a non-partisan perspective why extreme income inequality is such an important topic for our citizens today and for the future of America. Trailer*, official site, <http://inequalityforall.com/> 91% rating on Rotten Tomatoes (over 2000 reviews) [http://www.rottentomatoes.com/m/inequality\\_for\\_all\\_2013/](http://www.rottentomatoes.com/m/inequality_for_all_2013/)

**Hedge your 2<sup>nd</sup> midterm risk, avoid last minute extra credit papers:** attend the *Inequality for all* Screening, and then write a short 3-5 page paper (a) Summarize in one page the main arguments of the film. (b) Is there a tradeoff between equality and efficiency as [Arthur Okun suggests](#), or are they complementary (as the Suspension Bridge metaphor suggests)? Recalling Acemoglu and Robinson’s (2012) argument about the rise of the South, when is there a complementary relationship between reduced inequality and economic growth (hint: the Dream Act). (c) Ravi Rajan (Chicago business professor and IMF chief economics, now head of the Central Bank of India) argues government efforts to reduce inequality contributed to the 2008 financial crisis (see the moral hazard section of [Krugman’s NYRB review](#) of his 2010 book, *Fault Lines* or read the [introduction here](#)). (d) Whether you agree with Reich or not, which of his policies do think is most constructive (or least harmful). Relate your answer to the challenges and opportunities of globalization (recall the Avatar phenomenon, which is in turn related to the rise of China on the world stage, an ascent that started, perhaps not coincidentally in 1979—see also when the share of the top 1% started its post WWII ascent).

**Nobel Prize in economics goes to three Finance Professors:** Professors Fama, Lars Hansen and Robert Schiller, the special Nobel for economics often goes theorists who seem to hold diametrically opposite views, but in this case (and in others) alternative perspectives often give us a better picture of what is going on. Asset markets are efficient in the random walk sense, more often than not today’s price is the best predictor of tomorrow’s price. Yet as Schiller and others suggest, capitalism is subject to manias, panics and crashes. How can these two views be reconciled? Fama said at as late as 2010, what is at “bubble” I don’t even know what that is.... And Schiller believes asset prices are largely unpredictable.... What is going on?

**Assignment 4:** Chapter 14 page 196, answer P&A questions 2 and 5. All questions for Assignment 4 have been gathered together for you [here](#), so you can easily paste question text above your answers, in a different font color/style. See also lecture notes for [Chapter 13](#) and [Chapter 14](#). This Turnitin.com assignment will allow you to revise and correct questions in a 2<sup>nd</sup> submissions. However, this will only work if follow deadlines strictly. The

preliminary version of should be turned in Tuesday October 16<sup>th</sup>, then I will post the answers to all the problems from the text early Wednesday AM. Before the end of day Thursday check your grade, if it less than 2 you have the option of resubmitting with corrected. Here are the [answers to the Chapter 11 HW questions](#) (assignment 3), please try to make your Assignment 4 answers look like this (with text of question and answers in different fonts). Note the highlighted follow-up questions. Use these questions to submit a revision (optional) and to study for the quiz.

**Quiz #3 Monday October 21<sup>st</sup> Covers Chapters 11-13 (CPI, Long Run Growth the financial System)**, see [Practice Quiz questions](#) and homework assignment for review (will post answers Friday) and the lecture notes on LR- Growth. Additional terms for review absolute convergence, low income countries “catch up” with rich countries, post 2000 this has been happening (in part because of great recession and problems in EU); conditional convergence, countries that meet certain criteria, such as same education, do catch-up, meaning poor states grow faster (relate this to U.S. South catching up with North post 1963). The direct and indirect Walmart effect on living standards; three problems with the CPI as currently measured, which problems of these problems will a chain index fix? Why does this fix matter to you and your grandparents (hint: Social Security payments)? Given natural resources depletion (NR not N) and damage to the environment (including CO<sub>2</sub> emissions) can current levels of consumption growth maintained in China and the United States? (see [Arrow et al., 2004 Tables 1 & 2](#) and/or the [lecture notes](#) on Chapters 11 and 12).

**Online Quiz #4 October 28<sup>th</sup> covers Chapters 15&16** and Alan Blinder (2013) *After the music stopped*, Part I and Chapter 5. **Midterm review session, Tuesday October 29<sup>th</sup> 11am**

**Midterm #2 Thursday October 31<sup>st</sup>** covers chapters 11-16, see practice quizzes, similar format to Midterm #1, multiple choice and short answer in class, then online short answers only.

**For Thursday October 10<sup>th</sup>** please turn in brief but complete [answers to Chapter 11 questions](#), P&A #2, 4 and 7-10 also answer briefly LDQ-11.1 or LD-11.2. Ask in class Thursday if you find any of these questions difficult, real wages and real interest rates are essential macro variables to understand, know the answer to P&A #3 for example, without hesitation, if not ask in class. The Vegatopia problem is a bit of a mess, here is [spreadsheet with answers](#) to compare with yours, make sure you understand the formulas used for each cell (there are many ways to compute a weighted average). Please do include the question in word file, in a different color font (at the end of this calendar I have pasted the question text, for most of them, for those who have the a paper book). The answers to these questions do not have to be perfect, but read the chapter and try the problems and figure out what you don’t understand.

With the BLS is closed until further notice, we can’t do P&A#1, but we can do a variation on P&A 1 using movie ticket prices and minimum wages:

**LDQ 11.1** Is Avatar the most successful movies of all time, in terms of ticket sales? (see page 227) The answer to this question changes depending on whether you focus on total ticket sales or number of tickets sold, or whether you look at [world sales or just domestic ticket sales](#), [adjusted for inflation](#) or not. U.S.

[movie ticket prices have](#) risen from an average of 25 cents in 1940 (subway tokens were a nickel, bread was 10 cents) to over \$8 in 2013 (more in NYC it seems). Of course the quality of movies has changed too.... many saw *Avatar* in 3D with Dolby sound, not an option with *Gone with the Wind*. Using this list the text says Avatar is #14, by what criteria is it number one?

What is the most popular movie of all time? The answer might surprise you. Movie popularity is usually gauged by box office receipts. By that measure, *Avatar* is the number 1 movie of all time with domestic receipts of \$749 million, followed by *Titanic* (\$601 million) and *The Dark Knight* (\$533 million). But this ranking ignores an obvious but important fact: Prices, including those of movie tickets, have been rising over time, reflecting inflation.

"I see you don't like the effects of inflation."

**LDQ 11.2** pick three years, get the minimum wage, how many hours of work at the minimum wages did it take to buy a movie ticket (see ticket prices on average by year below)? (a) Be sure to identify the source and year of the minimum wage (careful, New Jersey and California have their own, higher, minimum wages, but use the Federal minimum wage if possible). (b) Do have a job? The minimum wage should be posted at your worksite. If you are working as an intern, you do not have to be paid,

especially if you work at a nonprofit. Recently there has been a movement to get interns paid, especially at for profit firms. As well as an effort to make fast food restaurants pay a higher “minimum” wage called the living wage. Who would be hurt by this law (in NYC for example) who would gain? (d) *In a great example of the efficiency wage hypothesis, Walmart just decided to make more of its workers full time and provide them with health benefits. Who will gain from this law, who will lose, very likely? (hint: Costco). Why is Walmart doing this? (hint: the Affordable care act)?*

**Midterm Part 2 extensions:** *several people have requested extensions, since you all have other courses, it may be not be helpful to give you more time to do this exam. But you can turnitin.com until 11:59pm tonight, after that you can still turn the exam in but 1 point will be deducted from your overall grade. Here is part 2A of the midterm there is [one is word format and](#) one in [pdf format](#), use the word format if you want to, just insert your answers in a different color: black or this dark red is fine (if have already viewed version 2, hit refresh or download 2A again in word format. If you already answered Part 2, you do not even have to look at version 2A the corrections/changes are minor.). Table 2 also appears in this [spreadsheet](#) if you want to copy and paste. Please turn this exam in by noon on Wednesday (turnitin.com). Send an email if you have questions, I will post answers to questions here (if any). This section is only worth 5 points so don't spend too much time on it (except that you get a 2<sup>nd</sup> shot at some questions that were on Part I of the exam). Midterm I of two is worth 15 points total (both sections) or three quizzes.*

**Midterm format:** The midterm will consist of two parts, Part I will be multiple choice and fill in the blank and will include all the diagram related questions (the PPF and the Supply and demand diagrams) and one part with the short answer questions (no diagrams). Part I will be taken in class for 45 minutes this Monday Sept. 30<sup>th</sup>. I will also distribute the Part II short answer questions the same day. Part II is due within 24 hours of getting the exam on turnitin.com (if you need another couple of hours, let me know). These Part II short answer questions should be submitted on turnitin.com, typed. You should not need diagrams or tables. These questions will be similar to the short answer questions on the quizzes and to the LDQ-1 and LDQ-2 (see below). There will be 2-3 required questions and one optional question. Once you have the questions, it may not be possible for me to answer substantive questions, so please make good use of the two review sessions. There is no quiz covering Chapter 10, a very important chapter, but see [these notes if you have time](#).

**2<sup>nd</sup> Midterm Review session first 20 minutes of class Monday:** Since we have decided to separate the two parts of the midterm (see above) we will have exactly 25 minutes at the beginning of the class to answer additional questions. **Important:** *to review with this midterm which is more or less a double quiz, I suggest reviewing quizzes 1 and 2, including the short answer questions (not the Coase theorem). Then I would look at the review sheets for both quizzes (and your homework questions). For Chapter 10 there is no quiz, so see my notes below and comments on the HW assignment you submitted on turnit.com. Many of the questions for review and the “quick quizzes” are useful for review as well.*

**Midterm Review Session: Sunday September 29<sup>th</sup>** at 5pm in 313 Hughes (if we can get in\*) or in Room E-523 Dealy (Economics Conference Room right next to my office E-527 Dealy) if the upper floors of Hughes are closed. The September 30<sup>th</sup> midterm will cover chapters 1-4 and 15 and the material on quiz 1 and 2 and on the midterm review sheet (which comes mainly from the two quiz review sheets). The format of the midterm will be similar to the quizzes, except you will have time to answer some of the short answer questions. There will also be some extra credit questions on the Midterm, in case you have extra time or trouble with the required questions. \*Typically Dealy is open on Sunday, but if the doors or locked, go around to the corner door in the back near the stairs that go down to the basement. It will be propped open, if you cannot enter through this door call me or someone in the class and we can come down and let you in (914 661-6998 or 718 817 4063).

**Announcement: Google for Entrepreneurs [Week New York activities](#) will be held in our Chelsea Market office on Monday September 30 & Wednesday October 2. Please let any interesting startups that will find attending helpful know that they can register here <http://goo.gl/AAppLt>. You're of course invited to attend as well if you're interested. The agenda is below but the highlights include hearing from our founding NY engineer, 3 different startup entrepreneurs that sold their company to Google, different product demos with APIs for entrepreneurs to use and a Google Glass demo where folks get to try them on as well to brainstorm some new business ideas! You'll also get to try a xoogler's [cool mobile app](#). To network with the audience. [http://www.beekays.com/technology/conference\\_networking\\_app\\_topi\\_gets\\_deep\\_meetup\\_integration/](http://www.beekays.com/technology/conference_networking_app_topi_gets_deep_meetup_integration/)**

**Thursday September 26<sup>th</sup>:** Review Mankiw Chapter 10: **Questions for Review**, page 214 (all are useful, ask about any of them in class and see the expanded version of #7 below, answers these questions before you go to Problems and Applications); **Problems and Applications:** Answer typed question #1 (with explanations), #3, #4 and #8 (for #4 perhaps set up an excel table like the one below, fill it out and paste/special picture into your text file). If all goes well, we can also answer #6, this is a useful question despite the big gap in years (1999 to 2009). We can update these numbers to 2002 and 2012 and do the same calculations. Question 6e should be the “What was the [annual] growth rate of real GDP between 1999 and 2009?” since they give you the annual growth rate formula in part a, where  $N = 10$  in this case. Once you set up this table, you should be able to copy the numbers directly to excel using the numbers below the graphic image of Table or just use the Table in the Supply and demand spreadsheet. Typed answers to Problems and Applications are due Saturday September 28<sup>th</sup> at 11:59pm.

Answers to Real GDP [supplemental Assignment 3](#) due Monday after Midterm October 8<sup>th</sup>.

**Monday September 23<sup>rd</sup>** [Answers to quiz 2 review questions](#), pick up your answers if you wrote them out in the envelope on my office door (E-527 Dealy Hall). Inequality and poverty up in New York (but constant nationally). Lets do these readings before the midterm, this question complements question 1.1 below, which focuses on the late transition of the South from an extractive to an inclusive regime, is New York heading toward an extractive model?

**LDQ-1.2** Is the U.S. moving from an inclusive to and “extractive” regime? (a) Why is share of the top 1% in the U.S. rising, is this a problem for the U.S. economy or not? (a) Briefly compare the “top 1%” arguments of Stiglitz ([Vanity Fair](#)) and Gregory Mankiw in the [Journal of Economic Perspectives](#). (b) Briefly, who do you find most convincing? Or if you are still thinking about these issues, what do you find most convincing about both arguments.

**Thursday September 19<sup>th</sup>:** please read chapter 4 and pages 310-315 in chapter 15 (on the minimum wage and unemployment). Quiz 2 on Monday will focus on the supply and demand diagram as a model of how simple markets work. The market for labor works differently than the market for chocolate bars or data phones for example, why and how is what we will focus on Thursday (and Monday if necessary).

Please answer the review questions on the [Quiz 2 review sheet](#) and bring your preliminary answers to class on Thursday, we will review and correct them together so you can use them to study for the quiz #2 on Monday (shorter than quiz #1 and you will have a bit more time). After you finish reading Chapter 4, make sure you can answer “problems and application” #1, #5, #6 and #13 on page 86-87 of Mankiw (the answer to #14 is on this [spreadsheet along](#) with a better version as well). One of the EC questions on the quiz will be based on Discussion Question 1.2 below, so we all need to read the Mankiw and Stiglitz articles on inequality (the top 1%). Since we now have two Mankiw readings, please cite the JEP article as Mankiw, 2013, otherwise I will assume you are referring to the Mankiw text.

Speaking of the market for smart phones, here is the “[Steve Jobs of China](#)” mentioned in class, [Xiaomi CEO](#) Lei Jun recently hired Google executive [Hugo Barra](#) and introduced a real \$100 multi-color iphone look alike in China. Xiami quickly sold 7 million phones (with or w/o data plans?). The “Mi” phone is a “*substitute*” for the Apple Iphone, its presence makes demand for all smart phones in China more price elastic (price responsive) as it is easier to switch phones. Hence the market power of phone users increases. Data plans *complement* data phones, if data plans are expensive, then even inexpensive smart phones are less useful (the demand curve shifts to the left). However, if the price of data plans fall, then the demand schedule for smart phones shifts to the right, and demand will be higher at all data phone prices. Since average incomes in China are about 20% of U.S. incomes, low price is important. On the other hand, the Chinese market for smart phones is the largest in world, after overtaking United States last year [according to the NY Times](#), but they do not give us total sales in either country, just for the world (so this may not be true, yet).

**Quiz #1:** because the quiz was too long, very few people had a chance to answer the optional short answer questions, even briefly. The only person who answered the EC correctly received 5/5, which seems fair. Figure 1 below shows the distribution of scores based on the multiple choice. I will create an assignment on turnitin.com which allows people to answer an EC question briefly, however, it should be a Macroeconomics question and preferable one that involves inequality. So please wait for Quiz #2, then the Quiz 1 EC assignment works as follows: if you got 3 or less on the quiz, the EC question can add one point to your Quiz 1 score, if you got 3.5 it can add .5 to your score. This should raise the average score from the present 3.5 to just very close to 4, which is where it should be. This assignment is due on turnitin.com after we return Quiz 2 next Thursday meaning September 27<sup>th</sup>. You can also answer a question you did not answer from Quiz 2, so wait until you complete Quiz 2 or answer #1 or #2 from Quiz 1. Your answers should be brief, but complete, and very likely you will not draw a diagram, though you can use Excel or Word, so it appears electronically on your pdf or word file. This is also worth doing because the

optional short answer questions will be similar to these on the midterm, but required. Admittedly, this socialist redistribution of quiz scores, but it should have a positive impact on future exam scores. Those who did well will feel less secure, and those who got low scores will review for exam (with feedback) and not feel demoralized. This is also fair, because a number of MC questions were presented in a confusing way. The overall quality of the Quizzes was much better than expected, and not reflected in the average score of 3.4.

**Monday September 8, 2013:** Read chapter 3, take a look at question 1, 2 and 4 or 5. To answer these questions, draw the PPF for an hour for the whole workforce (10 million workers in question 4 for example). Determine the slope of the PPF. Then start drawing this same (your) PPF at one corner of your potential trading partner's PPF (this is the significance of the dotted lines in [lecture notes in pdf or pptx format](#). You may also want to use this [excel spreadsheet](#). If you find yourself above your partner's PPF, you should specialize in and export this product. If you find yourself below your partner's PPF, you are trying to export (produce) the wrong product. Go to the other corner and start drawing your PPF again, this time you should be above the PPF, unless you have no comparative (relative) advantage, in which case the slopes of the two PPFs are the same. There is no HW due on Monday, but you should be prepared to answer Chapter 3 questions for Thursday.

**Thursday September 12<sup>th</sup>** end of day, answer questions 2 & 3 on page 39 and the questions below. For the PPF diagram, use the word/power point template in the lecture notes, if possible, if you cannot make this drawing work you can also turn it in by hand in class September 12<sup>th</sup> (if you choose the hand drawn option, please answer the questions that do not involve graphics in a word or PP file, submitted electronically, mention in the word/PP version that the graphics drawn by hand).

**Monday September 16<sup>th</sup>:** Quiz #1 covers Mankiw chapters 1-3 and a few other things, see the [quiz review sheet here](#).

**Monday September 23<sup>rd</sup>:** Quiz #2, covers Chapter 4 Supply and Demand and perhaps Chapter 10 (GDP):

**Monday September 30<sup>th</sup>:** Midterm I, covers Chapter 1-4 and Chapter 10 & 11 (perhaps not Chapter 11).

**September 5<sup>th</sup>:** problems 2 and 3 from Mankiw p. 39 end of Chapter 2.

2. Imagine a society that produces military goods and consumer goods, which we'll call "guns" and "butter." a. Draw a production possibilities frontier for guns and butter. Using the concept of opportunity cost, explain why it most likely has a bowed-out shape. b. Show a point that is impossible for the economy to achieve. Show a point that is feasible but inefficient. c. Imagine that the society has two political parties, called the Hawks (who want a strong military) and the Doves (who want a smaller military). Show a point on your production possibilities frontier that the Hawks might choose and a point the Doves might choose. d. Imagine that an aggressive neighboring country reduces the size of its military. As a result, both the Hawks and the Doves reduce their desired production of guns by the same amount. Which party would get the bigger "peace dividend," measured by the increase in butter production? Explain.

3. The first principle of economics discussed in Chapter 1 is that people face trade-offs. Use a production possibilities frontier to illustrate society's trade-off between two "goods"—a clean environment and the quantity of industrial output. What do you suppose determines the shape and position of the frontier? Show what happens to the frontier if engineers develop a new way of producing electricity that emits fewer pollutants.

**Notes and terms:** absolute vs. relative advantage (p. 54), slope of the PPF is the opportunity cost of the good on the horizontal (X) axis

**September 3<sup>rd</sup>:** Ronald Coase recipient of the [1991 Nobel Prize in economics](#) (pronounced coze) died today. He was only 102. He married his wife Marion in 1937 they migrated to the U.S. from the UK together in 1951... she died last year. Definitely a Grand Pursuit economist, though "accidentally" as he puts it modestly. His contribution came mainly in just two papers he wrote in the late 1950s, one on what companies are for (reducing transaction costs) and the other on using markets and private ownership to solve externality problems (see the Coase Theorem entry in Mankiw's Glossary under "C"). There are many examples of the Coase Theorem at work every day ([the NY Times obit mentions one](#)). Buying and selling air rights in Manhattan are another good example.

**September 2<sup>nd</sup>** is a holiday, then we meet September 4<sup>th</sup> and 5<sup>th</sup>, we will use these back to back classes to attack key material in chapter 2 (mainly). Chapter 1 is meant to be self-contained, but the ideas are important. Before getting to try to read chapter 1 and 2 before class next, not every word, but to get an idea of what is going on. There will be little time to read between classes. For chapter 1, see questions due September 4<sup>th</sup> listed below. For Chapter 2, we

will do 2-4 in class with slightly different names and numbers, so please bring paper and perhaps a pencil and a pen or pens with two colors of ink if you can, not red...).

**September 4<sup>th</sup> and 5<sup>th</sup>** (*Wednesday is a Monday, Thursday is a Thursday, sorry*). Most important, read through Chapters 1 and 2 to prepare for back to back lectures. Discussion questions: n turnitin.com. Sections in italics are optional, they may appear later (on a quiz or midterm) but often it best to discuss these sections in class.

**Due midnight September 4<sup>th</sup> (word or pdf on turnitin.com):** Assignment 1 which is question 1.1 below and short typed answers to questions 5, 8, 12\* and 15A (see below) on page 19-20 of the text. For the “Problems and Applications” questions please mention which of the 10 principles you are applying in your answer. \*For Chapter 1, #12, add a part (b) If Americans save more, and banks do not lend this extra savings to business to invest, what happens to employment and productivity? What can government do to fix this problem? Replace #15 on page 20 with this question: *15A. Imagine that you are a policymaker trying to decide whether to try and reduce the rate of unemployment. To make an intelligent decision, what would you need to know about inflation, unemployment, and the trade-off between them? Who made this decision during and following the 2008 recession?*

### Discussion Question Set #1

LDQ-1.1 Economics as a [Grand Pursuit](#) (not a dismal science) and Martin Luther King’s/Rosa Parks’s contribution to growth and prosperity: Historically the South was always poorer than the North (one reason they lost the war). But even after the Civil War and slavery ended the South lagged behind. (a) How did the civil rights movement led by Rosa Parks and Dr. King help reverse the fortunes of the South? Why didn’t the “extractive regime” associated with slavery end with the Civil War? Draw an analogy between the ascendance of the South and current Senate proposals for immigration reform. How does “incorporation” of new group lead to higher economic growth (according to the bipartisan [CBO, 2013](#)): See this [excerpt](#) from Acemoglu<sup>2</sup> and Robinson, 2012, *Why Nations Fail*. (b) Relate this to what [Sylvia Nasar argues](#) was the most important change in economic thinking during the late 19<sup>th</sup> century (Alfred Marshall vs. Karl Marx, Ricardo and Malthus). How did economics transform itself from the “dismal science” in the 19<sup>th</sup> Century to a “Grand Pursuit” in the 20<sup>th</sup> Century? *Despite their dismal sounding title (Why nation fail) Acemoglu and Robinson are engaged a Grand Pursuit, relate this to their core idea of inclusive vs. extractive institutions).*

LDQ-1.2 Is the U.S. moving from an inclusive to and “extractive” regime? (a) Why is share of the top 1% in the U.S. rising, is this a problem for the U.S. economy or not? (a) Briefly compare the “top 1%” arguments of Stiglitz ([Vanity Fair](#)) and Gregory Mankiw in the [Journal of Economic Perspectives](#). (b) Briefly, who do you find most convincing? Or if you are still thinking about these issues, what do you find most convincing about both arguments.

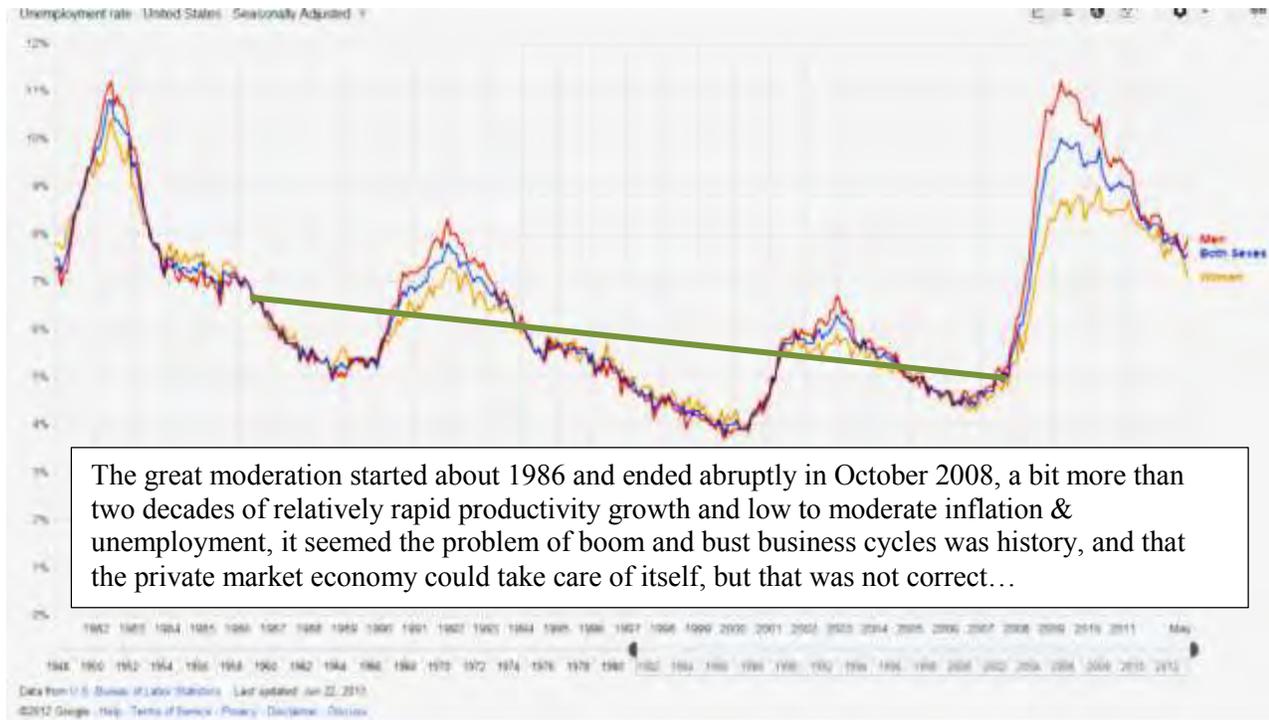
LDQ-1.3 When and why will China “catch up” with the United States ([Hans Rosling gives you the exact date](#), coincidentally his 100<sup>th</sup> birthday, if he lives that long, and he might if he stops swallowing swords). What really convinced Hans Rosling, the Swedish honors student, that Asia would overtake the West? (b) When have we heard this before? (see [Wynne’s Dallas Fed](#) letter). How did the U.S. fall behind? Or alternatively, why is China doing exceptionally well (see Nail Ferguson’s [The 6 killer apps](#) or [Dambasi Moyo’s](#) How the west was lost). Growth in China is slowing into the 7% range but is still much faster than the United States’ 2% and less than 1% in the EU). What advantage is China losing (hint: The South in the U.S.) and what advantage will it retain over the next 30 years? *What bill recently passed by the Senate help remedy this problem? (hint: this may be the same reason Southern Europe, especially Greece and Portugal and Spain is tolerating such 25% + rates of unemployment).*

LDQ-1.4 Ironically, a key debate in Macroeconomics recently played out on the Steven Colbert show (thank you Umass PhD student Thomas Herndon, and his Sociologist friend who knows Excel...). See the episode where [Steven Colbert](#) weighs in on budget debate here and Europe (start about one minute in, though the discussion of air traffic controllers is relevant too). Later he interviews UMASS graduate student of the moment, [Thomas Herndon](#).

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<sup>2</sup> Daron Acemoglu is one of the most productive young economists in the United States, what are his national/ethnic roots? How do his background and trajectory reveal, in a positive way, the potential costs of discrimination and social exclusion?

To be fair, Rogoff and Reinhart defend their results in several venues, including the [Wall Street Journal](#) and the [New York Times](#). (a) why is this debate important, summarize it briefly, why is this an important debate for the U.S. (and Spain) right now. (b) what do R&R suggest highly indebted countries do? What is the problem with this idea? See also R&R [JEP paper 2012](#).



*Helpful hints for HW assignments: making use of and reference to readings: One advantage of answering questions using mainly online readings is that it is easy to cite and or use Tables and figures from online PDF readings (or a Kindle reader, PC edition at least). Be sure to clearly reference all quote or specific facts, using a page numbers where possible. Be sure to also summarize the positions of the author, if you can figure it out, and then add your own views on the topic. For example, Mankiw is a text book author and former advisor to President Bush (the 2<sup>nd</sup> if I recall). Professor Stiglitz was chief economist at the World Bank, but was fired in 1998 for opposing aid to Russia, which made him very mad (if I recall Larry Summers, then at the U.S. Treasury, made the final decision, this made Stiglitz even angrier). Modern world economies (and macroeconomics) is very complex and heterogeneous, so there are always two views, as in Stiglitz vs Mankiw. Fortunately, though it made most texts dated, the Great Moderation encouraged and the Great Recession reduced disagreement over macroeconomic policy, and this is good. For syllabus readings use quick references Acemoglu and Robinson (2012) or A&R (2012,p 30) or Nasar (2013) etc. Cutting and pasting both the question section, as in 1(a) and short quotes into your word file is a great idea (include page numbers for specific points, facts). Later, you may even want to cut and paste a Figure, just be sure to give the source. A url is part of a reference, but not a whole reference. Word 2007+ has a reference which helps you complete a reference to an online document. If it is a pdf you can use the Mendeley to create a reference for it (it will do web pages as well). Remind me to add reference to a pure web page here, so you can see for format (or see the Word Reference form).*

Chapter 11 P&A questions copy/pasted from the text:

7. The New York Times cost \$0.15 in 1970 and \$2.00 in 2009. The average wage in manufacturing was \$3.23 per hour in 1970 and \$20.42 in 2009.
  - a. By what percentage did the price of a newspaper rise?
  - b. By what percentage did the wage rise?
  - c. In each year, how many minutes does a worker have to work to earn enough to buy a newspaper?
  - d. Did workers' purchasing power in terms of newspapers rise or fall?

8. The chapter explains that Social Security benefits are increased each year in proportion to the increase in the CPI, even though most economists believe that the CPI overstates actual inflation. a. If the elderly consume the same market basket as other people, does Social Security provide the elderly with an improvement in their standard of living each year? Explain. b. In fact, the elderly consume more healthcare compared to younger people, and healthcare costs have risen faster than overall inflation. What would you do to determine whether the elderly are actually better off from year to year?

9. When deciding how much of their income to save for retirement, should workers consider the real or the nominal interest rate that their savings will earn? Explain.

10. Suppose that a borrower and a lender agree on the nominal interest rate to be paid on a loan. Then inflation turns out to be higher than they both expected. a. Is the real interest rate on this loan higher or lower than expected? b. Does the lender gain or lose from this unexpectedly high inflation? Does the borrower gain or lose? c. Inflation during the 1970s was much higher than most people had expected when the decade began. How did this affect homeowners who obtained fixed-rate mortgages during the 1960s? How did it affect the banks that lent the money?

Jane Austen. *Pride & Prejudice* (Page 232). Amazon Digital Services, Inc..

(T/F) Is the above text from *Pride and Prejudice* (page 232) or Amazon Digital Services Inc. so wrong? I the page number correct, at least?

