14.02: PRINCIPLES OF MACROECONOMICS
Spring 2019

Why do economies expand sometimes, as in the U.S. for the last nine years, but contract at other times, as in 2008-2009? What is a recession? What happened in 2008-09 when the world economy was hit by the worst recession since the Great Depression of the 1930s? What can government policies, particularly monetary and fiscal policies, do to affect these macroeconomic outcomes? Why does the unemployment rate vary over time? Why is there unemployment at all? Why do prices rise at different rates at different times? Why do exchange rates between currencies vary over time? How do economic policies in one country affect other countries? Why do economies grow at different rates? Why has China’s growth rate exceeded that of the U.S. for the last two decades? What explains movements in the stock market? These are some of the core questions of macroeconomics. If you are curious about the answers, then this is the course for you.

The course is organized around four major themes: the determinants of short-run economic fluctuations in the closed and open economy; the determinants of long-run growth; the investigation of government policies, including monetary policy, government spending, and exchange rate policy; and the analysis of key economic sectors, such as consumer spending, business investment, and financial markets.

Faculty Members
Prof. Ricardo Caballero: caball@mit.edu

Teaching Assistants
Michele Fornino, mforino@mit.edu (Head TA)
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Course Format
The course has two one-hour lectures (M-W) and one required one-hour recitation (F). The lectures will be held on Mondays and Wednesdays at 2 PM, in 54-100. The one-hour Friday recitations will be held at 2PM and 3PM in room 4-270. There will be no recitations on Fridays during quiz weeks (see dates above), and on Friday 2/8. You can choose the time that is most convenient to you. The lectures will be videotaped and uploaded as soon as possible after class. Please follow this link to access the videos of the lectures, and email the Head TA if you are experiencing issues. Keep in mind that only registered students are allowed to the platform, and that WebSIS takes a while to record a change in registration status.

Support staff: Chris Ackerman, ackermch@mit.edu.
OFFICE HOURS
All TA’s will have office hours once a week. These office hours are open to all students. The time and place of each TA’s office hours will be posted on the 14.02 Stellar/LMOD website under the “staff list” section of the dashboard. Professor Caballero will be available on an appointment basis. Please direct any administrative questions regarding the course to the Head TA, Michele Fornino (mfornino@mit.edu). We will also host a Piazza forum for the class, accessible at this link. Please email the head TA if you are experiencing trouble accessing the platform. We will try to be responsive, especially during quiz weeks, but we encourage open discussion. You should always check whether the question you have in mind has already been asked, and we will try to “pin” the most relevant threads so as to make them more easily visible. We encourage all students to try and provide an answer if they know it. This fosters interaction and active learning.

READINGS
The primary text for the course is the 7th edition of Macroeconomics, by Olivier Blanchard. This book is available at the Coop and several copies will be on reserve at Dewey Library. For many classes there will be additional reading material posted on the 14.02 Stellar website. You are also encouraged to read the economics content of The Economist, the Wall Street Journal, or the Financial Times regularly during the semester to stay abreast of current economic events, which periodically we will be discussing in class.

EVALUATIONS: PROBLEM SETS AND QUIZZES
The course grade will be based on nine problem sets and three quizzes. Each quiz will count for 25% of the grade, and 5% of the grade for the last quiz will be awarded for free if you come to the last lecture on 5/13, where attendance will be recorded; a problem set grade will account for the remaining 25% of the class grade. While all problem sets are mandatory, you will be allowed to skip at most two problem sets for illnesses or other documented impediments (trips, interviews and so on). In these instances, you are required to notify the Head TA at least 24 hours in advance of the deadline.

The second and third quizzes will only require material covered in the lectures since the immediately preceding quiz. Each quiz will last for 90 minutes. The dates, times and rooms are as follows:

- **First Quiz**: 3/7/2019. Time 7.30PM-9PM. Room: 32-123.

There will be no makeup quizzes, so any time conflict or other impediments must be disclosed during the first week of classes. For time conflicts and special accommodations, please email the Head TA as soon as possible (mfornino@mit.edu). He will also send reminders one week before each quiz.

Problem sets will be posted on Fridays and will usually be due one week later. The problem sets’ due dates will be disclosed fully in the calendar section on Stellar/LMOD as soon as they will be
available, while the exact time at which they are due will be spelled out on each assignment’s PDF. We will use Gradescope for problem set submission and grading. Please enroll yourselves using the course access code 9G36W8, and watch this video if you have never used Gradescope before. **IMPORTANT!** Problem set submission will only be accepted through Gradescope, so please sign up as soon as possible and notify the Head TA if you experience any issues at all with access to the platform.

We will use the 14.02 Stellar/LMOD website to distribute problem sets and solutions, past exams, and other announcements. Please inspect your spam folder to make sure that any emails from the MIT LMOD platform are received correctly. This is the best way we have to make announcements to all of the class in a timely fashion.

Problem sets and quizzes will be graded on a 100-points scale, the weighted average of which will be converted to a letter grade according to the following tentative cutoffs:

- 85-100: A range
- 75-84: B-range
- 65-74: C-range
- 55-64: D-range
- below 55: F

Cutoffs may only be revised downwards if the difficulty of the quizzes and problem sets turns out to be too high, and grade modifiers cutoffs (pluses or minuses) will be announced near the end of the class. Note that the average numeric grade will not be rounded up to the nearest integer for the purposes of giving a letter grade. This means, e.g., that 84.75 is still a B-range grade.

**COLLABORATION POLICY**

Collaboration on problem sets is permitted, but please do write up your answers separately and upload them on Gradescope. Collaboration on quizzes is strictly prohibited, and any such activity will be considered a breach of academic honesty. Such breaches will be handled following the procedures in the latest MIT Guidelines on Academic Honesty, which are given in detail in MIT's Policies and Procedures.

**TOPICS TO BE COVERED (tentative list)**

**Before Quiz 1**: Economic measurement (Chapter 2), Goods and Financial Markets (Chapters 3 & 4), Short Run Fluctuations and the IS-LM Model (Chapters 5 and 6)

**Between Quiz 1 and Quiz 2**: Labor Markets (Chapter 7), The Phillips Curve, Aggregate Supply, and Aggregate Demand (Chapters 8 & 9), Exchange Rates and the Open Economy (Chapters 17-18-19)

**After Quiz 2**: Theory of Economic Growth (Chapters 10-13), Expectations and Interest Rates (Chapter 14), Term Structure and the Stock Market (Chapter 14), Consumption and Investment (Chapter 15), Expectations and Policy (Chapter 16).