

14.02: PRINCIPLES OF MACROECONOMICS

Spring 2021

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? In what ways will the global pandemic of 2020-21 impact the world economy? What can government policies, particularly monetary and fiscal policies, do to affect these macroeconomic outcomes? Why do policymakers think that stimulus checks and low interest rates might provide the economy with a boost in these unprecedented times? 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 fluctuate? How do 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 three decades? What explains medium-term 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

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TEACHING ASSISTANTS

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COURSE FORMAT

The course has two one-hour lectures (M-W) and one recitation (F). The lectures will be held on Mondays and Wednesdays at 2 PM, live and virtually on Zoom. **Attendance is strongly encouraged**, albeit not formally required. Students should have their

camera on, make sure their **mic is muted** when not asking a question, and generally **be respectful** towards everyone attending the class on Zoom. The one-hour Friday recitation will be held at 2PM, live and virtually on Zoom. There will be no recitations on Fridays during quiz weeks. Please find all of the relevant Zoom links listed on Canvas. The meeting ID of each lecture is subject to change, so always refer to Canvas to get the most up-to-date information. The **lecture and recitation videos will be available on Canvas** for you to (re-)watch at your convenience, or if you have time conflicts. Please email the Head TA (mformino@mit.edu) if you are experiencing issues with access to class videos.

OFFICE HOURS AND PIAZZA

All TA's will have **office hours once a week**. These office hours are open to all students. The time and Zoom link of each TA's office hours will be posted on Canvas. Prof. Caballero will be available on an appointment basis only. Please direct any administrative questions regarding the course to the Head TA, Michele Fornino (mformino@mit.edu). We will also host a **Piazza forum** for the class, accessible at this [link](#), or through Canvas. 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. Everyone is welcome to post about topics related to the class. 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 8th edition of Macroeconomics, by Olivier Blanchard. This textbook is available at the Coop to buy or to rent. Note that since this is the first edition of the class for which we require the 8th edition, and since the differences with the 7th edition are not major, students are allowed to rely on the 7th edition if they cannot find the newer one. For some 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 class grade; a combined problem set grade will account for the remaining 25% of the class grade.

The dates of the quizzes are:

- **First Quiz:** 3/18/2021. Time 7.30PM-9PM.
- **Second Quiz:** 4/15/2021. Time 7.30PM-9PM.
- **Third Quiz:** 5/13/2021. Time 7.30PM-9PM.

Quizzes will be held virtually. More information on the implementation details will be disclosed later on. If you have a time-zone-related issue, or any documented conflicts that won't allow you to take the exam as per the above schedule, **you must email the Head TA (mfornino@mit.edu) during the first week of attendance in the class.** If you become ill or injured, and are thus unable to take an exam, you must notify both the Head TA and Student Support Services (S³) at the first indication that you may not be able to take the exam.

All problem sets are mandatory. However, we have a procedure for you to obtain at most 2 excuses throughout the semester for:

- work-related trips, job interviews, and similar instances. In this case, notify the Head TA **at least 1 week prior to the problem set deadline.**
- personal health-related matters. In this case, notify the Head TA and Student Support Services (S³) **at the first indication** that you may not be able to submit your work in time.

Problem sets will be posted on Fridays and they will usually be due one week later. Due dates will be disclosed fully on Canvas 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 check that automatic enrollment through Canvas was successful, and watch this video if you have never used Gradescope before. Regrade requests will open for 24-48-hours after the grades are posted, and they will not be accepted outside of this window.

IMPORTANT! Problem set submission will only be accepted through Gradescope. Please email the Head TA (mfornino@mit.edu) if you experience any issues with access to the platform, or with the problem set submission procedure.

GRADING

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

- 85-100: A range
- 75-85: B-range
- 65-75: C-range
- 55-65: 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 17-20)

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).