

Introductory Macroeconomics Fall 2005

Economics 101.06
Introductory Macroeconomics
Fall 2005
MWF 09:30-10:20 Higley Aud.

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Office Hours: MW 14:00-15:30 and by appointment

1. Course Objective:

This course is an introduction to macroeconomics. Unlike microeconomics (that focuses on the activities of households and firms) macroeconomics focuses on the economy as a whole. The topics we will analyze include national income and its determinants, money and credit, fiscal and monetary policies, business cycles and economic growth. Studying macroeconomics can give us perspective on our own economic decisions, as well as inform us as citizens on important political economic issues. The main objectives of the course are:

- To provide students with the theoretical knowledge behind macroeconomic policy-making including a variety of methods and models used for this purpose.
- To introduce existing debates and controversies in macroeconomics to the students by examining different schools of thoughts.
- To enable students to develop necessary skills to apply the methods and models to policy making as well as current economic debates.

2. Course Structure:

The course is designed around lectures, assigned readings from the textbook and various articles, films, and class discussions. The students are expected to come to each class after having read the assigned readings, and to participate in classroom discussions. The topics covered in the lectures will overlap the materials found in the textbook. However, the lectures and discussions will, on occasion, cover some materials that are not found in the textbook or in the assigned readings. Students will be responsible on examinations for ALL ASSIGNED MATERIALS. Note, since each examination will include some material that is not in your textbook, it is strongly recommended that you attend the formal lectures.

3. Course Requirements:

The final grade will be based on your performance from: a) three midterm exams (15% each) and a comprehensive final exam (25%); b) a research paper (15%); c) seven homework assignments due on the following week or on the last class before each exam and two short evaluation reports (1-2 page) on the films shown (10%); d) class participation (5%).

4. Exam Structure:

They will be a combination of multiple choice and short answer questions and short essays and will be given in class. We will have a review session prior to each exam.

5. Policy on Make-up Exam

There are no make-up midterms and your midterm grades will be calculated on the basis of the midterms you are present. If you miss a midterm because of a valid reason the weight of your final will be increased by 15 points. If you do not take a midterm without providing a valid justification you will obtain a score equal to zero.

6. Homework Assignments

There will be seven homework assignments distributed one-week before due dates. Late submissions will not be accepted. There will also be two short evaluation papers (1-2 pages) on the films assigned. The papers should analyze the films from an economic perspective using the methods and tools learned throughout the semester and are due on the following Monday after the showing of the films. The students are encouraged to watch the films on the assigned date, yet they can also watch them on their behalf in the library.

7. Textbook and Additional Readings

The textbook for the class is Michael Parkin (2005), *Macroeconomics*, Seventh Edition, Pearson Addison-Wesley. The text Web Site is <http://www.MyEconLab.com/>.

Additional required readings are available either through www or will be available in our website.

The students are expected to do the required readings before the associated class, but are not always expected to understand it all; often, especially with the text, it is helpful to look at it again after the relevant class. Questions regarding the assigned readings and topics prior to each class are welcome. I will return your e-mails within 24 hours.

8. Class Participation

Class participation includes attendance, your questions and answers and participation in class discussion. You are expected to attend class regularly, read the assignment listed for that date, and participate in class discussion.

9. Term Paper

On a topic related to the course and using the concepts of the course, write a one-paragraph proposal and have the topic approved before the first midterm. The paper topic can be on any issue analyzed in class or related topics. You may want to analyze a particular public policy in terms of the economic theory and how well the policy might work. You may consider an

historical event, such as the Great Depression, the Mexican economic crisis of 1995, the Asian economic crisis of 1997-98 or recent Argentine economic crisis of 2001. You might alternatively analyze an existing policy or a policy proposal, such as the Fed's interest rate increase or President Bush's tax cut. Some other possible topics include but are not limited to: China's admittance to the World Trade Organization and its recent devaluation of its currency, sweatshops and trade with developing countries, determinants of East Asian development experience, effects of financial liberalization in developing countries, the European Union adopting a common currency, large budget deficits or Social Security reform. More detailed information on the structure of the paper will be given in the later parts of the course. The due date for the paper is December 7.

10. Academic Ethics:

Cheating on assignments and exams, or plagiarizing (misrepresenting as one's own anything done by another) is penalized by Denison University. A student found in such a situation will be given an F in the class and will be brought to the Honor Council for further penalties.

11. Students with Disabilities

Any student who feels he or she may need an accommodation based on the impact of a disability should contact me privately as soon as possible to discuss his or her specific needs. I rely on the academic support & Enrichment Center in 104 Doane to verify the need for reasonable accommodations based on documentation on file in that office.

12. Grading Scale

97.5-100: A+
92.5-97.49: A
90-92.49: A-
87.5-89.9: B+
82.5-87.49: B
80-82.49: B-
77.5-79.9: C+
72.5-77.49: C
70-72.49: C-
67.5-69.9: D+
62.5-67.49: D
60-62.49: D-
less than 60 F

I reserve the right to adjust this schedule of grade equivalents in the student's favor.

13. COURSE OUTLINE AND READING ASSIGNMENTS:

The following is a tentative list of topics and required readings. All readings should be completed by the date listed. Additional readings may be assigned from time to time.

Introductory Macroeconomics

Course Outline

A. INTRODUCTION

1. What is economics?
2. Why study Economics?
3. Definition of Economics
4. Major economic questions
5. The role of the government
6. Positive vs. Normative issues
7. Obstacles and pitfalls of Economic Analysis
8. Graphs and Models
 - a. Graphing data
 - b. Model Building

Reading: Macroeconomics, Chapter 1, p. 1-27.

Stiglitz, J. (2003). Do as the US Says, Not as it Does. Guardian/UK (October 29). Available at: <http://www.guardian.co.uk/comment/story/0,3604,1073042,00.html>

B. THE ECONOMIC PROBLEM

1. What is Macroeconomics?
2. Flow Diagram
3. Society's Production Possibilities: PPF

Reading: Macroeconomics, Chapter 2, p. 32-39, 44-45.

C. DEMAND AND SUPPLY

1. Demand
2. Supply
3. Market Equilibrium
4. Changes in Equilibrium
5. Excess Demand vs. Excess Supply (Surplus vs. Shortage)
6. Price ceilings vs. Price Floors

Reading: Macroeconomics, Chapter 3, p. 57-77.

Suggested film: Affluenza

D. INTRODUCTION TO MACROECONOMICS

1. Origins of Macroeconomics
2. Main Macroeconomic Concepts and Measurement
3. Stocks and Flows
4. GDP: Measuring a Nation's Income
5. Unemployment

6. Inflation and Measurement of Cost of Living
7. Measurement Problems
 1. Problems in Measuring Cost of Living
 2. GDP deflator vs. CPI
8. Correcting Economic Variables
 1. Measuring Economic Growth
 2. Real and Nominal Interest Rates
 3. Preliminary concepts
 - a. Okun's law
 - b. Phillips curve

Reading: Macroeconomics, Chapter 4-5, p. 87-98, 107-121, Chapter 6, p.140-143.

Exam 1, September 23

E. BASIC MACROECONOMIC MODELS

1. Income Expenditure and Output
 1. Consumption and Saving Plans
 2. Expenditure and equilibrium output
 3. Using the income-expenditure model
 4. The Price level

2. Aggregate Supply and Aggregate Demand: Production and Prices
 1. Aggregate Demand (in the long run and the short run)
 2. Aggregate Supply
 - a. The Short-run AS curve
 - b. The Long-run AS curve
 3. Changes in the Long-run in the Economy

Reading: Macroeconomics, Chapter 7, p. 149-167.

F. FOUNDATIONS OF AGGREGATE DEMAND AND SUPPLY

1. Consumption, Saving and Investment
 1. Consumption and Saving
 2. Investment
 3. National Saving and Investment

Reading: Macroeconomics, Chapter 13, p. 190-193; Chapter 13, p. 306-315.

2. The Multiplier and fiscal policy
 1. The Income-Expenditure Model: Review
 2. The Multiplier
 3. The Government Budget
 4. Fiscal Policy in the Income-Expenditure Model

Reading: Macroeconomics, Chapter 13, p. 316-323, 328-331.

3. Money, Banks and the Federal Reserve
 1. What is money?
 2. Demand for Money

3. Determination of the interest rate
4. Banks and Money Creation
5. The Central Bank and the Control of Money Supply- Monetary Policy
6. Money, Output and the Price Level
7. Monetarism and the Quantity Theory

Reading: Macroeconomics, Chapter 10, p. 233-247, Chapter 11, p.257-269.

Exam 2, October 21

4. Labor Markets and Unemployment
 1. Measuring Unemployment
 2. U.S. Unemployment in the Twentieth Century
 3. Types of Unemployment
 4. Causes of Unemployment
 5. Okun's Law

Reading: Macroeconomics, Chapter 6, p.130-139, Chapter 8, p.180-189.

G. ECONOMIC FLUCTUATIONS

1. Business cycles
2. Aggregate Demand and the Cycle
3. Real Business Cycle Theory
4. The Great Depression

Reading: Macroeconomics, Chapter 14, p.335-354.

Film: Grapes of Wrath, October 28, 5:00-8:00 pm

H. Inflation

1. Inflation and price level
2. Effects of Inflation: What are the costs of inflation?
3. Demand-pull and Cost-push Inflation
4. Hyperinflations
5. Inflation & Unemployment Trade Off
6. Inflation Policy

Reading: Macroeconomics, Chapter 12, p.277--293.

I. LONG-RUN MACROECONOMICS-GROWTH

1. What is economic growth?
2. Economic Growth around the World
3. Causes of Economic Growth
4. Growth accounting
5. Growth theory
6. Conclusion

Reading: Macroeconomics, Chapter 9, p.205-222.

R Jenkins, 'The political economy of industrialization: a comparison of Latin American and East Asian NICs', *Development & Change* 22 (2):197-231, 1991

A. Amsden, Bringing Production Back in-Government's Role in Late Industrialization, *World Development* 25(4):469-480, 1997.

Film: *Germinal*, November 7, 5:00-8:00 pm, November 8, 5:00-8:00 pm

Exam 3, November 14

J. INTERNATIONAL TRADE-A QUICK INTRODUCTION

1. Free Trade and Absolute Advantage
2. Comparative Advantage

Reading: Macroeconomics, Chapter 17, p.415-430.

Oxfam (2005). Dumping on the World: How EU sugar policies hurt poor countries. Available at: http://www.oxfam.org.uk/what_we_do/issues/trade/bp61_sugar_dumping.htm

Lauredee, M. (1993). Trade Policy: Who Wins, Who Loses? In G. Esptein, J. Graham, and J. Nembhard (eds), *Creating a New World Economy*. Temple University Press.

Weisbrot, M., Rosnick, D., and Baker, D. (2004). Poor Numbers: *The Impact of Trade Liberalization on World Poverty*. CEPR Briefing Paper. Available at: http://www.cepr.net/publications/poor_numbers.pdf

K. THE OPEN ECONOMY AND INTERNATIONAL FINANCE

1. Balance of Payments accounts
2. Exchange rates and the market for foreign exchange
3. Foreign transactions and the macroeconomy
4. Current Issues

Reading: Macroeconomics, Chapter 18, p.437-450.

Weisbrot, M, Rosnick, D., and Baker, D. (2005). *Going Down with the Dollar: The Cost to Developing Countries of Declining Dollar*. WEPR Issue Brief. Available at: http://www.cepr.net/publications/dollar_reserves.pdf

Setser, B., and Roubini, N. (2005). How Scary is the Deficit? Our Money, Our Debt, Our Problem. *Foreign Affairs*, Jul/August. Available at: <http://www.foreignaffairs.org/20050701faresponse84415/brad-setser/how-scary-is-the-deficit.html>

Suggested film: *The Corporation*

Term Paper due on December 7

Final Exam