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ECONOMICS 103

PRINCIPLES OF MACROECONOMICS

1. COURSE OBJECTIVES

- a. Macroeconomics is the study of the economy as a whole. Why are some countries richer than others, and how do economies grow? What are booms and recessions, and why do they occur? What determines how many jobs the economy creates and the rate at which incomes rise? What is inflation, and what causes it? Why does it matter? What determines the unemployment rate? What are interest rates? How are they determined and how do they affect the economy? How does government policy affect the economy? What is the significance of the federal budget deficit? What causes trade deficits, and why are they important? These are some of the big questions that the study of macroeconomics will help you begin to answer. It will improve your understanding of politics, news, and current events, and make you a more informed citizen. This introductory level course is suitable for students who have already had a course in microeconomics (either in high school or college). Those who have not had any economics before may take the course but should expect to encounter some difficulties and be prepared to make extra effort.
- b. As with those who engage in any area of human activity, economists employ a vocabulary which allows them to communicate easily with one another by both the written and the spoken word. Over time, those engaged in the study of economics have amassed a collection of basic economic concepts and principles regarding individual and societal behaviour. These concepts and principles are used not only to describe past behaviour, but also to analyze and predict the likely outcomes of new situations to which they are applied. By necessity, economists function in an environment that changes, providing them with a continuous flow of new situations for analysis, as well as a continuing challenge to the validity of their basic principles. Thus, anyone who wishes to understand economics must learn to speak its language; to apply its concepts and principles to the analysis of a succession of individual and societal situations, and to use the analysis in an effort to project the anticipated outcomes of these situations. It is also helpful to maintain a healthy appreciation for the limitations of the discipline and of those who practice it.
- c. In the light of the above, at the conclusion of this course, the student who has done the required work satisfactorily should be able to demonstrate, verbally and in writing, that she/he:
 - i. Knows basic economic terms by showing that she/he can select the term which best fits a particular definition or economic conditions; distinguish between terms that are similar but not the same and use terms correctly in describing economic phenomena;
 - ii. Understands basic economic concepts and principles by being able to describe the concepts and principles in her/his own words; construct her/his own examples of the concepts and principles

studied and explain economic situations in terms of the concepts and principles studied;

- iii. Can apply economic concepts and principles to the analysis of new situations by being able to identify the applicable concept or principle involved; explain how the principle can be applied to produce a resolution or an interpretation of the new situation; recognize and employ appropriate cause-and-effect relationships in the analysis of economic data and distinguish between warranted and unwarranted conclusions or predictions drawn from data.
- d. In order for the student to obtain the level of competence anticipated in the setting of those course objectives, it will be necessary for her/him to be alert to the following expectations with regard to student preparation for class:
- i. An average of 1.5 to 2 hours of preparation by the student is expected for each class period.
 - ii. The student is expected to re-read and study again material that is assigned for more than one class period.
 - iii. The student is expected to use economic terms and concepts properly. The textbook places special emphasis on key economic terms by setting out key term lists at the end of each chapter. The student should not attempt rote memorization of these terms and concepts, but should seek familiarity through repeated applications and attempts to construct her/his own examples and illustrations.
 - iv. Graphs and the explanations which accompany them are not simply pictures to be skimmed over hastily. Graphs are important descriptive and analytical tools of the economist with which the student is expected to become adept. Thus, the student should not only read and study graphic materials, but be able to apply graphic analysis when appropriate.
 - v. The true test of understanding is the ability to apply basic economic terms, concepts and principles to new situations and to build upon that understanding. Thus, the student is expect to look for situations in her/his daily affairs to which these basics can be applied and extended.

2. BASIS FOR EVALUATION

- a. There will be one examination during the semester (at mid-term). The average on this exam will account for 30% in the computation of the student's final course grade. This exam will entail the application of simply graphic and/or algebraic analysis to economic problems or situations, with explanations provided in essay form. The student will be given some choice in the questions to be answered.
- b. There are eleven short essays scheduled throughout the semester. Each essay should be between 350 and 500 words, typed, double-spaced. Essays are evaluated on the quality of the writing and on your application of economic analysis to the question at hand. The average on these essays will account for 30% in the computation of the student's final course grade.
- c. There will be a final exam at the end of the semester. The average on this exam will account for 40% in the computation of the student's final course grade.
- e. In addition to the exams and essays, the professor will also consider such factors as the student's contribution to class discussions; the improvement or retrogression of the student's performance over the term; and consistency of the student's performance when arriving at the final course grade.
- f. To summarise the basis for evaluation:

<u>% of final grade</u>	<u>Method of assessment</u>
30%	Mid-term
30%	Short essays
40%	Final exam

There will be no make up exams on this course.

3. READING

- a. The required text is *Principles of Economics* (5th edition) (Case and Fair).

I **strongly** advise students not to rely on the textbook alone, but to read more widely. This will improve your understanding of macroeconomics.

- b. The student is also expected to stay abreast of current economic events through regular contact with a good newspapers and web sites (i.e. one that reports economic and financial matters in depth). For this course, *The Wall Street Journal* , *The New York Times* , and the international edition of the *Financial Times* qualify as goods newspapers. The first two are available at student subscription rates if the student wishes to subscribe. Students might also be interested in reading the *Economist*.
- c. The course web site also provides a list of other macroeconomic sources which I urge you to consult on a regular basis.

4. COURSE SCHEDULE (Provisional)

January:

<u>Week Commencing</u>	<u>Topic</u>	<u>Chapter(s)</u>
8 th	Introduction	1
15 th	Supply and Demand	4 & 5
22 nd	Measuring National Output	6 & 7
29 th	Macroeconomic Concerns	8

February:

<u>Week Commencing</u>	<u>Topic</u>	<u>Chapter(s)</u>
5 th	Government and Fiscal Policy	9 & 10
12 th	Investment, Financial Intermediation & Financial Markets	
19 th	<i>No classes</i>	
26 th	Discussion Groups/Review of Material <i>Exam Friday 2nd March</i>	

March:

<u>Week Commencing</u>	<u>Topic</u>	<u>Chapter(s)</u>
5 th	Money Supply and the Fed	11
12 th	Money Demand & Supply: Interest Rates, Monetary Policy and Output	12 & 13
19 th	Money Demand & Supply: <i>Internet Assignment</i> <i>Group discussions</i>	13
26 th	Aggregate Demand & Aggregate Supply	14

April:

<u>Week Commencing</u>	<u>Topic</u>	<u>Chapter(s)</u>
2 nd	Short and Long Run	
9 th	The Labour Market, Unemployment & Inflation	15

5. LIST OF ESSAYS

1. What are the main challenges of macroeconomics?
2. Distinguish the equilibrium level of National Income from the full employment level of National Income. Why might they differ?
3. What is the main function of financial intermediaries? Why might they need to be supervised and, if necessary, controlled?
4. What can cause an 'economic recession' and 'economic boom'? How can a country avoid both?
5. Explain what is meant by the multiplier. Show how the multiplier concept can be extended from a closed economy with no government sector to an open economy with a government sector.
6. What makes something money? What functions does money perform? Why do you think packets of chewing gum don't serve as money?
7. How would you distinguish between voluntary and involuntary unemployment? How would you classify people who are made redundant and turn down the only job they can find, where that job pays a much lower wage?
8. The money market and the bond market are closely intertwined. Explain what will happen to the price of bonds and to money holding if the Fed changes the interest rate as a result of a decrease in the money supply.
9. Identify the two links between the money market and the goods market. Outline the reasons for the inverse relationship between investment and the interest rate.
10. Distinguish the different types of time lag in stabilisation policies. Discuss the problems time lags cause for stabilisation policy.
11. If the natural unemployment rate increases, what happens to the short-run Phillips curve? What happens to the long-run Phillips curve? What happens to the expected inflation rate?

6. ESSAY HAND-IN SCHEDULE

- Essays 1 and 2 should be handed into me no later than Friday 2nd February 2001.
- Essays 3, 4 and 5 should be handed into me no later than Friday 2nd March 2001.
- Essays 6, 7 and 8 should be handed into me no later than Friday 23rd March 2001.
- Essays 9, 10 and 11 should be handed into me no later than Friday 6th April 2001.

7. FORMAT FOR ESSAYS

1. Please type all essays, reports and assignments and follow these instructions:

- Try to use either Helvetica or Palatino font, set to 12 pitch.
- The top, bottom and right margins should be set at 1 inch and the left margin at 1.5 inches.
- Please double space the text, except where you include a lengthy quote (discussed below).
- Number pages consecutively, in the top right hand corner of each page. Do not number the cover/title sheet.
- Place figures and tables either within the text (if you can do this) or at the end of the document.

2. To reference an article, chapter or book in an essay, please note the following example:

This is coupled to the second criticism of monetarism, about how a faster rate of money growth is divided between higher output and rising prices. Friedman once stated that this area was the 'missing equation' of monetarist theory (Friedman 1970, pp. 221-222).

3. If you quote from an author who has produced more than one book or article in that particular year, then the format is as follows:

Following on from the Green Paper, the authorities prepared a series of discussion papers, culminating in new arrangements from 5 August 1981 (Bank of England 1980, 1981a, 1981b).

4. If you wish to include a quotation from an article or book which is longer than two lines, then there are two ways of doing this. Note that the quotation is indented and is in single spacing, while the main text is double spaced. The pitch of the font DOES NOT change.

Either:

This failure by Friedman to provide a clear analytical response to this problem even led Johnson (1971, p. 12) to comment that the monetarist counter-revolution would 'peter out' because:

I believe the Keynesians are right in their view that inflation is a far less serious social problem than mass unemployment . . . [T]he second reason is that monetarism is seriously inadequate as an approach to monetary theory, judged by prevailing standards of academic economics, and in the course of repairing its intellectual fences and achieving full scientific respectability it will have to compromise irretrievably with its Keynesian opposition.

Or:

This failure by Friedman to provide a clear analytical response to this problem even led one author to comment that the monetarist counter-revolution would 'peter out' because:

I believe the Keynesians are right in their view that inflation is a far less serious social problem than mass unemployment . . . [T]he second reason is that monetarism is seriously inadequate as an approach to monetary theory, judged by prevailing standards of academic economics, and in the course of repairing its intellectual fences and achieving full scientific respectability it will have to compromise irretrievably with its Keynesian opposition.

(Johnson 1971, p. 12)

5. As you are using the Harvard referencing system, there is no need for footnotes. You might want to include endnotes, however. If you do use endnotes, please keep endnotes to a minimum. Try to keep only technical definitions or points of clarification for endnotes. Endnotes should be placed at the end of the assignment, but before the references. These should be double spaced, e.g.:

Mrs Thatcher believed that previous governments had either ignored the rise in inflation, or had concluded that the costs of ridding inflation from the system would require a high sacrifice ratio.¹

1. The *sacrifice ratio* is the amount of lost output that an economy experiences in order to reduce inflation.

6. Citing web pages:

<http://www.eh.net/etc/etc.html> (accessed May 20, 1999)

7. How to compile the references. Please use only this format for the references. All of the examples here should cover every type of reference that you will need for your assignment and reports. Please note that the references are single spaced:

Aldcroft, D. H. (1977), *From Versailles to Wall Street, 1919-1929*, London: Allen Lane.

Aldcroft, D. H. (1993a), *The European Economy, 1914-1990*, London: Routledge.

Aldcroft, D. H. and Oliver, M. J. (1995), 'The Legacy of the Gold Standard', *The Economic Review*, Vol. 12, No. 4, pp. 25-27.

Artis, M. J. and Cobham, D. (eds.) (1991), *Labour's Economic Policies 1974-1979*. Manchester: Manchester University Press.

Bean, C. and Crafts, N. (1996), 'British economic growth since 1945: relative economic decline . . . and renaissance?', in N. Crafts and G. Toniolo (eds.), *Economic Growth in Europe Since 1945*, Cambridge: Cambridge University Press.

8. EVALUATION RUBRIC FOR ESSAYS

Competency:	<u>Analyzing Economic Environments</u>
Sub-competency:	<u>Macroeconomic Environments</u>
<p>(Grade A) 60 – 100</p> <p>A + = 70+ A = 65-69 A - = 60-64</p>	<p>Changes in the variable are accurately summarised and explained in terms of all the relevant causal variables. The summary is timely. Forecasts are reasonable given current trends, and fully justified in terms of reasonable projections of all the relevant causal variables. Theoretically irrelevant variables do not enter the analysis. There is no confusion between dependent and independent variables or between autonomous versus induced changes in variables (i.e., shifts in versus movements along a curve).</p>
<p>(Grade B) 53 – 59</p> <p>B + = 58-59 B = 55-57 B - = 53-54</p>	<p>Trends are accurately summarised and the summary is timely. The analysis of change and/or the forecast is fundamentally sound, although there are minor errors or omissions in parts of the analysis.</p>
<p>(Grade C) 41 – 52</p> <p>C+ = 50-52 C = 45-49 C - = 41-44</p>	<p>The summary of trends is basically correct, although there may be minor inaccuracies or some of the information may be slightly outdated. Although the analysis of changes or the forecast shows some understanding of macroeconomic theory, errors or omissions were prevalent enough to warrant a review of the material and more practice.</p>
<p>(Grade D) 39-40</p>	<p>The summary of trends is missing or seriously lacking, and the analysis shows some understanding even though errors are prevalent <u>OR</u>, the analysis demonstrates little understanding of macroeconomic theory, and the summary of trends is basically correct but with some inaccuracies or outdated information.</p>
<p>(Grade F) 0-38</p>	<p>The summary of trends is missing or seriously deficient and the analysis demonstrates little understanding of macroeconomic cause-effect relationships.</p>

Competency:	Effective Communication
Sub-competency:	Writing (Brief Documents)
<p>(Grade A) 60 – 100</p> <p>A + = 70+ A = 65-69 A - = 60-64</p>	<p>The document stands out as being effective. It is well organized and addresses the audience. Conclusions are clearly stated and supported where appropriate with properly formatted citations. It flows crisply with concisely written sentences and well chosen words. Spelling, punctuation, grammar, and syntax are excellent. Tables and charts support the analysis and are clearly explained.</p>
<p>(Grade B) 53 – 59</p> <p>B + = 58-59 B = 55-57 B - = 53-54 C + = 50-52</p>	<p>The document is satisfactorily written with good organization and spelling. However, it has a few mechanical errors, awkward sentences, or poor word choices. <u>OR</u>, important tables, charts, or references are missing or poorly explained or formatted.</p>
<p>(Grade C) 41 – 52</p> <p>C+ = 50-52 C = 45-49 C - = 41-44</p>	<p>The document has potential, but needs editing. The organization is decent and there are only a few spelling or mechanical errors. However, sentences often do not flow crisply enough, passive voice is used too often, or vocabulary is imprecise. Good writing is within reach. As you read, pay attention to style, sentence structure, and word selection. Actively practice, carefully proof read, re-write, and ask a good writers to review your drafts.</p>
<p>(Grade D) 39-40</p>	<p>Although you have a message, your credibility is undermined due to ineffective writing. It is disorganized and/or there are many spelling, grammar, syntax, and punctuation errors. Sentences do not flow crisply and word choice is awkward. Because you are making basic errors, you should study grammar and composition texts, enroll in writing courses, and seek outside help as you practice.</p>
<p>(Grade F) 0-38</p>	<p>The document is incoherent; it is not clear what your message is. There are many spelling, grammar, and punctuation errors. Sentences do not flow crisply and word choice is awkward. You should study writing and critical thinking texts, enroll in basic skills courses, and seek outside help as you practice in these areas.</p>

Competency:	<u>Utilizing Computers</u>
Sub-competency:	Word Processing and Desktop Publishing
(Grade A) 60 – 100 A + = 70+ A = 65-69 A - = 60-64	The document stands out as being neat and aesthetically pleasing. Margins, fonts, and spacing are consistent. If appropriate, technical or quantitative information is effectively presented in tables and charts that are clear and properly labelled.
(Grade B) 53 – 59 B + = 58-59 B = 55-57 B - = 53-54 C + = 50-52	The document is neat and satisfactorily presented, but the presentation doesn't stand out. <u>OR</u> , essential tables and charts are missing or not too useful.
(Grade C) 41 – 52 C+ = 50-52 C = 45-49 C - = 41-44	The document is neat and has potential, but it needs work in more than one area (aesthetics/layout, margins and spacing, fonts, integration of tables or charts, etc.).
(Grade D) 39-40	The presentation detracts from your message and undermines credibility with your audience. It needs considerable work in many areas.
(Grade F) 0-38	The document is so sloppy, unappealing, and disorganized, the audience is unwilling to invest effort in reading and contemplating its message.

9. INTERNET RESOURCES FOR MACROECONOMISTS

Please see class Web site