

MACQUARIE UNIVERSITY



Division of Economic and Financial Studies

Unit Outline

2003

BBA 214

MACROECONOMIC POLICY AND BUSINESS

Lecturer in Charge: Dr Sean Turnell

MACQUARIE UNIVERSITY

DIVISION OF ECONOMIC AND FINANCIAL STUDIES

BBA 214: Macroeconomic Policy and Business

Aims and Nature of the Course

Welcome to the 2003 offering of BBA 214, Macroeconomic Policy and Business. The aim of this course is to provide students with an understanding of the macroeconomic policy environment within which businesses operate. The course will place particular emphasis on the global economy and its implications for Australia. The course will contain practical material, but will construct its central narrative around the 'ISLM' model.

This handout contains basic and introductory material relating to the course, particularly the first seven weeks. Later handouts will be provided covering specific issues.

LECTURES and SEMINARS

There is one two-hour lecture each week that you are expected to attend. This lecture is held on Mondays from 11.00am to 1.00pm in E6A 131.

There will be eight seminar meetings held during the semester. In the weeks in which they are held, they will take place one hour after the lecture (at 2.00pm) in room W6B 320. These seminar sessions are designed to review and extend the work covered in lectures through group projects. Attendance will be recorded.

Seminars will be held in the following weeks:

- Seminar 1 - Week 5, Monday 25 August
- Seminar 2 - Week 6, Monday 1 September
- Seminar 3 - Week 7, Monday 8 September
- Seminar 4 - Week 8, Monday 15 September
- Seminar 5 - Week 9, Monday 22 September
- Seminar 6 - Week 10, Monday 13 October
- Seminar 7 - Week 11, Monday 20 October
- Seminar 8 - Week 12, Monday 27 October

There are two lecturers in the course.

Sean Turnell, weeks 1 to 6, and Trevor Whitehead, weeks 7 to 13.

Sean Turnell is in room C5C 380, and can be contacted by telephone on 9850 8493 or by e-mail at sean.turnell@efs.mq.edu.au

Trevor Whitehead can be located in room C5C 387, by telephone on 9850 8499 or by e-mail at trevor.whitehead@efs.mq.edu.au

Enquiries and Problems

(a) Academic

Problems relating to difficulties that you might be having in understanding material in lectures, readings or tutorials should be directed to Sean Turnell and Trevor Whitehead (according to topic). Do not hesitate to come and see us as soon as these arise.

(b) Personal

If your studies are being affected by personal problems contact the Student Counselling Service which provides assistance with a very wide range of problems.

Assessment

Essay (25%).

All students are required to submit an essay (on the topic below) by Monday, 13 October 2003. The essay should be approximately 2,000 words in length, neatly written or typed, using one side of the paper only, and properly annotated with supporting footnotes and bibliography. You must keep a photocopy of your essay in case of misadventure. Late essays will be subject to penalty (two marks per day), and plagiarism will receive strict disciplinary measures.

Seminar Assignment (15%)

There are eight seminars in the course, based around eight seminar topics. The Seminar Assignment is a group assignment, the assessment of which will be based on a class presentation and a written report based upon it. You will be allocated to a group in Lecture One.

Final Exam (60%)

The final exam will consist of essay-type questions covering the full range of course material.

Some Steps for Success in BBA 214

1. Read!
2. Summarise the lecture material immediately after the lecture. Where necessary supplement this with material from the selected text readings.
3. Don't wait until the end of the course to sort out problems. As in economics generally, cumulative causation determines most outcomes.
4. Be engaged in the seminars! These are for you - ask questions, make pronouncements, immerse yourself in economics. Few questions in economics are silly ones.
5. Study as soon and as often as you can. Use those moments of otherwise wasted time. It's extraordinary how much can be learned riding a bus or a train.
6. Read the newspapers. A key aim of this course will be to expose the assumptions of economic commentators. They yield a disproportionate power when it come to the assumptions most businesses make when it comes to the broader macro-economy.

Lecture Outline

The following topics will be examined during the semester. Note that the lecture time specified for each topic is only an approximation. Some topics may be discussed in greater depth while the time spent in examining other topics may be reduced.

1. The macroeconomic environment.
2. Modelling the macroeconomy - The YE Model.
3. The goods market, the money market and ISLM.
4. Monetary and fiscal policy and ISLM.
5. The foreign exchange market.
6. Open economy ISLM.
7. Determinants of growth.
8. Inflation and unemployment.
9. Macro policy design in Australia.
10. Expectations in goods and financial markets.

Sources in Economics

The single most important reason for attending university is to interact with the literature of your chosen field of study. In economics there is a vast literature. Some of it is very good, some is quite reasonable, some of it is dreadful.

The following is a list of resources in economics - for use in this course, and for as long as you retain an interest in the subject:

Newspapers/Magazines

Daily in Australia there are only three worth considering; *The Sydney Morning Herald*, *The Australian* and *The Australian Financial Review*. All are quite conservative.

Internationally there are many more. Some of the best that are readily available from newsstands in Australia include *The Guardian Weekly*, *The Economist* and the *Far Eastern Economic Review*. The *Guardian* is one of the few that could be described as 'liberal-left'. The *Economist* is conservative, but of a liberal variety not seen very much elsewhere. The *Far Eastern Economic Review* does for the region what the *Economist* does internationally.

Many more international newspapers and magazines are now accessible via the internet. Some of the best of these include the *Financial Times* (www.ft.com), the daily *Guardian* (www.guardian.co.uk), the *New York Times* (www.nytimes.com), the *Washington Post* (www.washingtonpost.com) and, perhaps above all, the *International Herald Tribune* (www.iht.com).

Journals

Journals are the primary vehicles through which information is disseminated in any academic discipline, including economics. With the growing mathematisation of economics many of these have become rather obscure, even to many economists. Some of the better and not overtly technical journals on economics (and some of the most relevant to business) include (in Australia), *Economic Papers*, *The Australian Economic Review*, *Australian Economic Papers*, *The Economic Record*, *The Australian Economic History Review*, *History of Economics Review* and *The Journal of Australian Political Economy*.

Some of the best and most accessible economics journals internationally are *Journal of Economic Issues*, *Journal of Economic Perspectives*, *Cambridge Economic Journal*, *Challenge*, *History of Political Economy*, *Journal of Behavioral Economics*, *Journal of Post Keynesian Economics*, *Journal of Economic Behaviour and Organisation*, *Journal of Economic Psychology*, *Journal of Economic Surveys*, *Journal of Interdisciplinary Economics* and *Review of Political Economy*.

Official Sources

A great deal of economic information can be found via central banks and international institutions. Moreover, much of this is now very easy to get hold of via the internet (from which it is usually free). Some of the best official sources include:

Australia:

Reserve Bank of Australia (www.rba.gov.au) - Annual Report, Semi-Annual Statement on Monetary Policy, *Bulletin*, Working and Research Papers.

Treasury (www.treasury.gov.au). Budget papers, *Update*.

International:

World Bank (www.worldbank.org).

IMF (www.imf.org).

International Labour Organisation (www.ilo.org).

OECD (www.oecd.org).

Bank for International Settlements (www.bis.org).

Asian Development Bank (www.adb.org).

Other Sources

The arrival of the internet provides those interested in economics with a vast array of non-official material that was previously inaccessible. Beware! Most of it is rubbish. Some of it, however, is very good. Amongst the very best include some of the following:

National Bureau for Economic Research (www.nber.org).

Institute for International Economics (www.iie.com).

The RAND Corporation (www.rand.org).

Paul Krugman's website (web.mit.edu/krugman/www/).

Nouriel Roubini's website (www.stern.nyu.edu/~nroubini).

Washington University's working paper archive (econwpa.wustl.edu/wpa).

The Brookings Institution (www.brook.edu).

Post-Keynesian Thought Archive (csf.colorado.EDU/pkt/).

Essay

There is one compulsory essay in the course. It is worth 25% of final assessment, so it's worth spending some time over. **The essay is due on Monday 13 October (by 5.00 pm in the box in ERIC).**

The question:

What were the causes of the Asian financial crisis in 1997? Would the crisis have been less severe had the countries involved had floating exchange rates?

Your research for this essay should include official and professional sources, and you should not rely on indiscriminate internet 'trawling'.

An excellent start for your research is our textbook, pp.495-500.

REFERENCES

The textbook for this course is:

Dornbusch, R., Fischer, S. and Startz, R. 2002, *Macroeconomics*, 9th (International) edn, McGraw-Hill Irwin, Sydney.

Earlier editions are also ok.

Some of the following will also be useful.

Mankiw, N.G. 1999, *Macroeconomics*, 4th ed., New York, Worth.

Blanchard, O. 1997, *Macroeconomics*, Prentice Hall.

Abel, A.B. and Bernanke, B.S., *Macroeconomics*, Addison-Wesley (Ch.14).

*Dwyer, J. and Dein, T. 1997, *Economics for Business*, Sydney, Prentice Hall.

*Fraser, I, Gionea, J. and Fraser, S. 1999, *Economics for Business*, Sydney, McGraw Hill.

Dyster, B. and Meredith, D. 1990, *Australia in the International Economy*, Cambridge, Cambridge University Press.

Kenwood, A.G. 1995, *Australian Economic Institutions Since Federation*, Melbourne, Oxford University Press.

BBA 214

Macroeconomics for Business

2003

ESSAY COVER SHEET

**Due date: Monday, 13 October 2003
(To be handed in to ERIC)**

CHECKLIST:

- 1. Have you made a photocopy of your essay?**
- 2. Have you included a synopsis and a bibliography?**
- 3. Do not submit in a manila or plastic folder.**
- 4. Have you read and signed the statement on the back of this title page?**

Name _____

Student Number _____

Final Mark (out of 25):

Marker's Comments:

PLAGIARISM STATEMENT

Plagiarism involves using the work of another person and presenting it as your own. Any of the following constitutes plagiarism **unless the source of borrowed material is clearly acknowledged:**

- (a) Copying out part(s) of any document or audio-visual material (including computer-based material);
- (b) using or extracting another person's concepts, experimental results or conclusions;
- (c) summarising another person's work;
- (d) in an assignment where there was collaborative preparatory work, submitting the same final version of any material as another student.

Encouraging or assisting another person to commit plagiarism is a form of improper collusion and may attract the same penalties.

STATEMENT TO BE SIGNED BY STUDENT

1. I have read the definition of plagiarism that appears above.
2. In my essay I have carefully acknowledged the source of any material which is not my own work.
3. I am aware that the penalties for plagiarism can be severe.

Signature _____

Name _____

Student Number _____