

**MACQUARIE UNIVERSITY**



Division of Economic and Financial Studies

**Unit Outline**

**2004**

**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 2004 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 133. Note that because of the Labour Day public holiday, there are no lectures or seminars on Monday 4 October.

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, and marks will accrue.

Seminars will be held in the following weeks:

- Seminar 1 - Week 4, Monday 23 August
- Seminar 2 - Week 5, Monday 30 August
- Seminar 3 - Week 6, Monday 6 September
- Seminar 4 - Week 7, Monday 13 September
- Seminar 5 - Week 9, Monday 11 October
- Seminar 6 - Week 10, Monday 18 October

Seminar 7 - Week 11, Monday 25 October  
Seminar 8 - Week 12, Monday 1 November

There are two lecturers in the course.

Sean Turnell, weeks 1 to 6, and Trevor Whitehead, weeks 8 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](mailto: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](mailto: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, 11 October 2003. Details of the essay question are given below. 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 is 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 comes to the assumptions most businesses make about 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*.

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](http://www.ft.com)), the *New York Times* ([www.nytimes.com](http://www.nytimes.com)), the *Washington Post* ([www.washingtonpost.com](http://www.washingtonpost.com)) and, perhaps above all, the *International Herald Tribune* ([www.iht.com](http://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 Behavioural 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](http://www.rba.gov.au)) - Annual Report, Semi-Annual Statement on Monetary Policy, *Bulletin*, Working and Research Papers.

Treasury ([www.treasury.gov.au](http://www.treasury.gov.au)). Budget papers, *Update*.

#### **International:**

World Bank ([www.worldbank.org](http://www.worldbank.org)).

IMF ([www.imf.org](http://www.imf.org)).

International Labour Organisation ([www.ilo.org](http://www.ilo.org)).

OECD ([www.oecd.org](http://www.oecd.org)).

Bank for International Settlements ([www.bis.org](http://www.bis.org)).

Asian Development Bank ([www.adb.org](http://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](http://www.nber.org)).

Institute for International Economics ([www.iie.com](http://www.iie.com)).

The RAND Corporation ([www.rand.org](http://www.rand.org)).

Nouriel Roubini's website ([www.stern.nyu.edu/~nroubini](http://www.stern.nyu.edu/~nroubini)).

Washington University's working paper archive (econwpa.wustl.edu/wpa).  
The Brookings Institution (www.brook.edu).

### Essay

There is one compulsory essay in the course. It is worth 25% of the final assessment. **The essay is due on Monday 11 October (by 5.00 pm in the box in ERIC).**

#### ***The Question:***

Imagine that you are the Chancellor of the Exchequer of a small open economy located somewhere in Asia. Exports, mostly manufactured goods priced in the local currency, are very important to your economy. Your principal export markets are the United States (50%), the European Union (30%), China (10%) and the rest of the world (10%). Your country mostly imports primary commodities from the region, and these are priced in \$US. You have negligible foreign debt, the Government's budget is roughly in balance, as is your current account.

Now suppose that a major terrorist attack takes place in Europe. Business confidence in the European Union is accordingly badly shaken, and there is substantial capital flight, from all over the world, to the United States. Soon after the attacks the European Central Bank cuts interest rates in an attempt to boost the European economy. The US Federal Reserve keeps US interest rates stable, and embarks upon a program of elevated defence expenditure.

Using the above scenario, and the analytical framework outlined in the first seven weeks of BBA 214, demonstrate in diagrams and words:

- i) the macroeconomic effects of the confidence shock, and subsequent policy initiatives, on Europe;
- ii) the likely macroeconomic impact upon the United States;
- iii) the likely macroeconomic impact of this *whole scenario* upon the country for which you are Chancellor.

In your answer, for each of the above, outline the implications for GDP, the value of the currency, the current account, the capital account, employment and the government budget.

A final wrinkle: Six months after the scenario above, a wholesale banking collapse occurs in China. How would *this* effect the economy over which you preside?

This essay is a scenario that is all too close to possible real-world events. For our purposes, however, it is a simulation only. As such, we don't want you to consult readings on the real global economy, or to delve into politics, but to concentrate on the ISLM framework developed in the course. There is, of course, no 'one' correct answer to

*all* of the above, but there *is* a logically consistent approach. How well you do this, while noting the various qualifications and/or complexities that might arise, will determine our assessment of your work. Clearly issues such as referencing and the like will not be relevant, but this is a formal essay and, as such, clarity, expression and logical argument are important. It is fine to consult with your fellow students over the issues raised in the question, but the resultant essay must be in your own words. Essays that are deemed to be insufficiently distinct from each other will automatically receive zero marks.

Don't worry either about fancy graphics, statistics or any other of the usual paraphernalia of an essay. For this one, just the analysis!

## REFERENCES

The textbook for this course is:

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

Earlier editions are also ok.

Some of the following will also be useful.

Mankiw, N.G. 2003, *Macroeconomics*, 5<sup>th</sup> ed., New York, Worth.

Blanchard, O. 2004, *Macroeconomics*, Prentice Hall. (Especially Chapters 3-5, 18-21).

\*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.

## **The Seminar Programme**

The seminar programme in BBA 214 aims to apply the theoretical material given in lectures to real world problems and case studies.

The seminar programme is based on group work. In Lecture One you will be allocated to a group. For the purposes of fairness, as well as to encourage collegiality, this allocation will be completely random - both in terms of group members, and the presentation date. In the further interests of fairness, however, the difficulties of being in an 'early' group will be taken into account for assessment.

What does each group have to do?

Firstly, your group must present its findings on the given topic to the class. Presentation skills are important in business and, as such, they will be taken into account when deciding the final mark given to your group. This doesn't mean that we're after fancy packaging - but content that gets to the heart of the issues and which demonstrates the quality of your research.

Secondly, your group must write up its findings in a summary paper. This need not be very long, and need not be as 'formal' as your essay. Each group assignment will be made available to other members of the class via ERIC. The summary paper must be given to Sean or Trevor at the conclusion of the seminar.

It's important to stress that the above is not meant to be too confronting. We're hoping you will get some fun out of presenting, as well as working with your fellow students. Being a good team member is an asset in business, and it will be an asset in this course.

As noted in the Unit Outline, your seminar work is worth 15% of your final assessment.

### **The Topics**

What we would like each group to do is to examine the macroeconomy of their given country. The 'given' countries, one per group, have been selected because of they are 'of interest' to Australia, and because they are interesting from a macroeconomic point of view. You will notice some of the more obvious countries are not included - mainly because there is an abundance of material and commentary upon them in the media already.

For 'their' country, each group must present:

- (1) An overview of the country
- (2) The structure of its economy
- (3) The country's principle exports, imports and markets
- (4) The current state of the country's macroeconomy
- (5) Issues and prospects

### The countries?

Group 1: India

Group 2: Thailand

Group 3: Indonesia

Group 4: Malaysia

Group 5: Sweden

Group 6: United Kingdom

Group 7: Singapore

Group 8: Canada

### Research

This is one of the skills you need to use. But some good places to start include the website of Austrade, (especially the 'Economist's Corner'), DFAT, CIA World Fact Book, the Economist Intelligence Unit, the World Bank, ADB, and so on. *The Economist* is likely to yield a rich vein of material.

**BBA 214**

**Macroeconomics for Business**

**2004**

**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 \_\_\_\_\_