

**MACQUARIE UNIVERSITY**



Division of Economic and Financial Studies

## **Unit Outline**

**2005**

**BBA 214**

**MACROECONOMIC POLICY AND BUSINESS**

Lecturer in Charge: Alison Stegman

# MACQUARIE UNIVERSITY

## DIVISION OF ECONOMIC AND FINANCIAL STUDIES

### BBA 214: Macroeconomic Policy and Business

#### Aims and Nature of the Course

Welcome to the 2005 offering of BBA 214, Macroeconomic Policy and Business. The aim of the course is to provide students with an understanding of the macroeconomic policy environment within which businesses operate. There is an emphasis on the practical application of economic theory and the practical issues involved in macroeconomic policy implementation. The topics covered in this course include measuring the economy, economic growth, saving and investment, the macroeconomic policy problems of unemployment, inflation and the balance of payments, and the macroeconomic stabilisation policy tools: fiscal policy and monetary policy.

#### Course Prerequisites

BBA103 or ECON110

#### Assumed and Essential Knowledge

Students are assumed to have a clear understanding of the Keynesian Multiplier (Y-E) model including equilibrium conditions and multiplier impacts. Students who feel that their understanding of this model may be limited are advised to contact the lecturer-in-charge WITHIN THE FIRST WEEK of lectures.

#### Lecturers

Alison Stegman (Lecturer in Charge): Weeks 1 to 9  
Room C5C 383  
Tel: 9850 9948  
Email: [astegman@efs.mq.edu.au](mailto:astegman@efs.mq.edu.au)

Trevor Whitehead, Weeks 10 to 13  
Room C5C 387  
Tel: 9850 8499  
Email: [twhitehe@efs.mq.edu.au](mailto:twhitehe@efs.mq.edu.au)

Regular consultation times will be published at the start of semester.

## **Lectures**

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 on Monday 3 October.

### **Lecture Outline**

#### *Introduction to Macroeconomics*

Topic 1: The Macroeconomic Policy Problem (Week 1)

Topic 2: Measuring the Economy (Week 2)

#### *Economic Growth*

Topic 3: Economic Growth (Week 3)

Topic 4: Saving and Investment (Week 4)

#### *Macroeconomic Policy Problems*

Topic 5: Unemployment and the Australian Labour Market (Week 5)

Topic 6: Money, Asset Markets, and Prices (Week 6)

Topic 7: Inflation and Unemployment models: The Phillips and Beveridge Curves (Week 7)

Topic 8: The Exchange Rate, the Balance of Payments and the External Constraint (Week 9)

#### *Macroeconomic Stabilisation Policy*

Topic 9: Fiscal Policy and the Budget (Weeks 10 and 11)

Weeks 10: Inflation Targeting and Monetary Policy (Weeks 11 and 12)

#### *Long Run Economic Growth Policies*

Week 11: Long Run Economic Growth Policies and Microeconomic Reform (Week 13)

## **Allocation of Marks**

Seminar Assessment	15%
Assignment	25%
Final Exam	60%

## **Seminars**

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 E6A 133. These seminar sessions are designed to review and extend the work covered in lectures.

The seminars are designed to review the lecture material and encourage discussion and debate of important macroeconomic issues. All students are expected to read the discussion literature and participate in the debate. The material covered in the seminars will be examinable.

Seminars will take place in the following weeks:

Seminar 1: Economic Growth	Week 4: 22 August
Seminar 2: Saving and Investment	Week 5: 29 August
Seminar 3: Unemployment and the Australian LM	Week 6: 5 September
Seminar 4: Money and Asset Prices	Week 7: 12 September
Seminar 5: Models of Inflation and Unemployment	Week 9: 10 October
Seminar 6: The Exchange Rate and Balance of Payments	Week 10: 17 October
Seminar 7: Fiscal Policy and the Budget	Week 12: 31 October
Seminar 8: Monetary Policy	Week 13: 7 November

## **Seminar Assessment**

There are eight seminar topics. In the first lecture, students will be allocated a seminar topic. Each student will be required to submit a report answering the seminar questions (both review and discussion) for their allocated topic. Students will be required to submit this report at the conclusion of the seminar dealing with their topic. The report will contribute 15% to your overall assessment mark.

All students are expected to participate in the seminar discussion. The seminar questions will consist of practice exam (review) and discussion questions. It is the responsibility of students to answer and discuss these questions in the seminar. All of the material covered in the seminars is examinable.

## **Seminar Topics and Questions**

The seminar questions are contained in a separate handout.

## Assignment/Essay

There is one compulsory assignment in the course. It is worth 25% of the final assessment. **The assignment is due on Monday 10 October (by 5.00 pm in the box in ERIC).**

Students should choose **ONE** of the following two essay topics for their assignment.

### Essay Topics:

#### A. Economic Growth

Gross Domestic Product (GDP) is an imperfect but widely used indicator of our relative standard of living across time and across countries. Outline some of the statistical issues that arise when attempting to compare GDP levels across time and across countries. Discuss the recent trends in (and possible drivers of) Australia's economic growth performance. How do Australian levels of economic growth and GDP per capita compare internationally? What are the limitations of GDP as a measure of our relative well-being and standard of living? Discuss some alternative measures with reference to the Australian experience.

#### B. Unemployment and the Australian Labour Market

Macroeconomists are generally concerned with the macroeconomic policy trade-off between unemployment, inflation and the balance of payments. The Australian Bureau of Statistics reported that the (seasonally adjusted) unemployment rate in Australia for June 2005 was 5 percent, the lowest unemployment rate in almost three decades (the ABS publishes the seasonally adjusted unemployment rate from 1978). Does this mean that unemployment is no longer a problem in Australia and that public policy should focus on the issues of inflation and the balance of payments? Do you think the unemployment rate is a good measure of the state of the labour market? Discuss the recent trends in key Australian labour market variables. Include some discussion of at least one theoretical model of unemployment (i.e. the Phillips Curve or the Beveridge Curve) and outline how different types of unemployment may respond differently to alternative policy initiatives.

Your essay should be clear and concise and **should not exceed 2000 words**. Graphs are essential.

The references below provide a very good background to your essay. All of the references, with the exception of the book by Gittins and Tiffen (2004) are available in the course notes. Chapter 3 from Gittins and Tiffen is included in your course notes. The complete book is held on Reserve in the library. Additional resources and references are encouraged. You can use the data sources to draw appropriate graphs and tables.

Students are strongly advised to consult the *Essay Writing and Referencing Guidelines* available from the EFS student support website:

[http://www.efs.mq.edu.au/services/policies\\_cheat.htm](http://www.efs.mq.edu.au/services/policies_cheat.htm)

## **References:**

Gittins, R. (2004), "An Economics Fit For Humans", Ronald Henderson Oration, VCOSS Congress 2004.

Dowrick, S. (1999), "Economic Growth", *The Australian Economy*, Kriesler, P (ed), 3<sup>rd</sup> Edition, Allen & Unwin.

Dawkins, P. (2000), "The Australian Labour Market in the 1990s", *The Australian Economy in the 1990s*, Proceedings of the Reserve Bank of Australia 2000 Conference.

Stegman, A. and Stegman, T. (2001), "Labour Market Flexibility and the Output-Employment Ratio in Australia", *Economic and Labour Relations Review*, Vol 12, No 2.

ABS (2005), *Measures of Australia's Progress: Summary Indicators*, Australian Bureau of Statistics.

Gittins, R and Tiffen, R, (2004), How Australia Compares, Cambridge University Press.

Blanchard, O. (1989), "Two Tools for Analyzing Unemployment", NBER Working Paper No. 3168, November.

Stegman, T and Junor, B. (1993), "Phillips Curve Models", *Introductory Macroeconomics*, Harcourt Brace, Australia, p342-365.

## **Data:**

A limited data set of economic statistics will be available from the course website. Students wishing to use these series should consult the relevant source publication and ensure that they understand how to source this data. When using data, students should be clear in defining the series under consideration. All data sources should be referenced.

Students wishing to include additional data series in their essay are encouraged to visit the ABS web site: [www.abs.gov.au](http://www.abs.gov.au). The following publications may prove useful:

ABS Catalogue 6105: Australian Labour Market Statistics

ABS Catalogue 6202: Labour Force, Australia

ABS Catalogue 5204: Australian System of National Accounts

ABS Catalogue 5206: Australian National Accounts: National Income, Expenditure and Product

## **Final Exam**

The final exam contributes 60% to your overall assessment mark. The final exam will consist of essay style questions and will cover the full range of course material. Further details of the final exam will be available later in the semester.

## **Subject Requirements**

To pass BBA214, students must

- (i) Submit what the LIC considers to be a reasonable attempt at the assignment;
- (ii) Pass the final examination.

## **Plagiarism**

Students are strongly warned against plagiarism. If detected, the marks for all assignments involved will be forfeited and/or students involved will be referred to the Disciplinary Committee.

## **Special Consideration**

If you are sick or experience misadventure such that you are unable to complete your assigned seminar questions or the assignment you need to complete an *Advice of Absence* form. Further information is available from the EFS student support website: [http://www.efs.mq.edu.au/services/policies\\_consideration.htm](http://www.efs.mq.edu.au/services/policies_consideration.htm). This procedure is **ONLY FOR COURSEWORK**. A different procedure applies for sickness and misadventure relating to final exams.

In cases of illness or misadventure in relation to the final examination, you may apply for Special Consideration. Please note that the procedures of the Division of Economic and Financial Studies allow Lecturers-in-Charge to refuse applications for Special Consideration on the grounds of unsatisfactory coursework or attendance record.

Further information is available from the EFS student support website:

[http://www.efs.mq.edu.au/services/policies\\_consideration.htm](http://www.efs.mq.edu.au/services/policies_consideration.htm)

## **Enquiries and Problems**

### **Academic**

Any administrative problems should be directed to Alison Stegman.

Problems relating to difficulties that you might be having in understanding the material covered in lectures, readings or seminars should be directed to Alison Stegman and Trevor Whitehead, according to topic. Do not hesitate to come and see us as soon as these arise.

### **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.

## **Text**

There is no compulsory textbook for this course.

Compulsory reading for this course is contained in the subject course notes. Each Lecture Topic contains a list of readings. Readings that are compulsory are marked with an (\*) and can be found in the course notes. These readings contain examinable material. The readings may not cover all of the issues contained in lectures. The readings may also include additional topics not covered in lectures. All of the material covered in lectures is examinable and students should ensure they have a complete copy of the lecture notes.

The recommended textbook is  
Miles, D. and Scott, A. (2005), *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England.

This book contains additional reading for the topics covered in lectures. Copies of Miles and Scott (2005) are held in Reserve in the Library and are available for purchase at the bookshop.

Additional recommended readings are provided for each of the lecture topics. Reserve Bank publications are available from the website: [www.rba.gov.au](http://www.rba.gov.au).

## **Readings**

### *Introduction to Macroeconomics (Weeks 1-2)*

#### **Topic 1: Introduction to the Australian Economy**

Gruen, D. and G. Stevens (2000), "Australian Macroeconomic Performance and Policies in the 1990s", *The Australian Economy in the 1990s*, Proceedings of the Reserve Bank of Australia 2000 Conference.

Reserve Bank of Australia (RBA) (2005), *Statement on Monetary Policy*, 6 May 2005.

\*\*There are no compulsory readings for Week 1. Students are strongly advised to read the recommended readings for this week. They contain material relevant to the entire course.

#### **Topic 2: Measuring the Economy**

\*Dowrick and Quiggin (1998), "Measures of Economic Activity and Welfare: The Uses and Abuses of GDP" in Eckersley, R. (ed), *Measuring Progress*, pp93-108, CSIRO Publishing, Australia.



\*Gittins, R (2004), *Sorry, Money Still Doesn't Buy Happiness*, Sydney Morning Herald, June 21.

Miles, D and Scott, A (2005), "The Language of Macroeconomics: The National Income Accounts", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p13-33.

Layard, R. (2003), "Happiness: Has Social Science a Clue?", Lionel Robbins Memorial Lectures delivered at the London School of Economics on 3rd, 4th and 5th March 2003, available at <http://cep.lse.ac.uk/layard/>.

Gittins, R and Tiffen, R, (2004), "Human Development Index", in *How Australia Compares*, Cambridge University Press, pp16-17.

Stegman, T and Junor, B. (1993) "The Measurement of Aggregate Production: The National Accounts", in *Introductory Macroeconomics*, Harcourt Brace, Australia, p28-52.

### *Economic Growth (Weeks 3-4)*

#### **Topic 3: Growth Theory**

\*Dowrick, S. (1999), "Economic Growth", in Kriesler, P (ed.) (1999), *The Australian Economy*, 3<sup>rd</sup> Edition, Allen & Unwin.

\*Gittins, R and Tiffen, R, (2004), "Economy", in *How Australia Compares*, Cambridge University Press, pp42-65.

Macfarlane, I.J. (2004), "Geography, Resources or Institutions?", Address by Mr IJ Macfarlane, Governor, to 'The Bottom Line' Luncheon, Melbourne, 25 August 2004, Reserve Bank Bulletin September 2004.

Miles, D and Scott, A (2005), "The Wealth of Nations – The Supply Side", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p34-58.

Dowrick, I. (1995), "The Determinants of Long-Run Growth", *Productivity and Growth*, Proceedings of the Reserve Bank of Australia 1995 Conference.

Anderson, P and D. Gruen (1995), "Macroeconomic Policies and Growth", *Productivity and Growth*, Proceedings of the Reserve Bank of Australia 1995 Conference.

#### **Topic 4: Saving and Investment**

\*Edey, M. and L. Gower (2000), "National Savings: Trends and Policy", *The Australian Economy in the 1990s*, Proceedings of the Reserve Bank of Australia 2000 Conference.

\*Gittins, R and Tiffen, R, (2004), "Economy", in *How Australia Compares*, Cambridge University Press, pp42-65.

Miles, D and Scott, A (2005), "Investment", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p320-345.

#### *Macroeconomic Policy Problems (Weeks 5-9)*

#### **Topic 5: Unemployment and the Australian Labour Market**

\*Dawkins, P. (2000), "The Australian Labour Market in the 1990s", *The Australian Economy in the 1990s*, Proceedings of the Reserve Bank of Australia 2000 Conference.

\*Stegman, A. and Stegman, T. (2001), "Labour Market Flexibility and the Output-Employment Ratio in Australia", *Economic and Labour Relations Review*, Vol 12, No 2.

Miles, D and Scott, A (2005), "Unemployment and the Labour Market", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p137-165.

Stegman, T. (1999), "The Australian Unemployment Experience", in Kriesler, P. (ed. (1999), *The Australian Economy*, 3<sup>rd</sup> Edition, Allen & Unwin.

Borland and Kennedy (1998), "Dimensions, Structure and History of Australian Unemployment", *Unemployment and the Australian Labour Market*, Proceedings of the Reserve Bank of Australia 1998 Conference.

#### **Topic 6: Money, Asset Markets, and Prices**

\*Miles, D and Scott, A (2005), "The Bond Market", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p466-495.

Junor, B. (1999), "Inflation in Australia", *The Australian Economy*, in Kriesler, P. (ed. (1999), *The Australian Economy*, 3<sup>rd</sup> Edition, Allen & Unwin.

Miles, D and Scott, A (2005), "Money and Prices", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p257-289.

### **Topic 7: Inflation and the Phillips Curve**

\*Blanchard, O. (1989) "Two Tools for Analyzing Unemployment", *NBER Working Paper No. 3168*, November.

Stegman, T and Junor, B. (1993) "Theories of Inflation", in *Introductory Macroeconomics*, Harcourt Brace, Australia, p327-341.

Stegman, T and Junor, B. (1993) "Phillips Curve Models", in *Introductory Macroeconomics*, Harcourt Brace, Australia, p342-365.

### **Topic 8: The Exchange Rate, the Balance of Payments and the External Constraint**

\*Macfarlane, I.J. (2004), "The World Economy and its Implications for Australia", Inaugural Di Yerbury Economic and Financial Studies Lecture delivered Sydney, 14 April 2004, *Reserve Bank Bulletin*, May 2004

\*Pitchford, J. (2003), "Foreign Debt and the Australian Economy", *Ecodate*, May 2003, Vol. 17, Issue 2.

\*Gittins, R and Tiffen, R, (2004), "Economy", in *How Australia Compares*, Cambridge University Press, pp42-65.

RBA (2005), "Australia's Trade Openness", *Reserve Bank Bulletin*, March 2005.

RBA (2004), "Oil Market Developments and Macroeconomic Implications", *Reserve Bank Bulletin*, October 2004.

Miles, D and Scott, A (2005), "Exchange Rate Determination I – the Real Exchange Rate", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p496-525.

Miles, D and Scott, A (2005), "Exchange Rate Determination II: Nominal Exchange Rates and Asset Markets", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p526-553.

## *Macroeconomic Stabilisation Policy (Weeks 10-12)*

### **Topic 9: Fiscal Policy and the Budget**

Miles, D and Scott, A (2005), "Fiscal Policy and the Role of Government", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p224-256.

Blanchard, O and Sheen, J. (2004), "Fiscal Policy: A Summing Up", in *Macroeconomics*, Prentice-Hall, Australian edition, p581-603.

2005-06 Budget Papers, Australian Government Budget website, [www.budget.gov.au](http://www.budget.gov.au).

Intergenerational Report, Budget Paper No 5, 2002-03 Budget Papers.

Productivity Commission, "Economic Implications of an Ageing Australia", Research Report, March 2005.

Stegman, T. (2004), "Fiscal Policy: Theory and Practice", *Ecodate*, May.

Whitehead, T. (2005), "Priorities of Fiscal Policy in Australia", *Ecodate*, August.

### **Topic 10: Inflation Targeting and Monetary Policy**

Miles, D and Scott, A (2005), "Monetary Policy", in *Macroeconomics: Understanding the Wealth of Nations*, John Wiley & Sons, England, p377-407.

Blanchard, O and Sheen, J. (2004), "Monetary Policy: A Summing Up", in *Macroeconomics*, Prentice-Hall, Australian edition, p559-580.

Reserve Bank Bulletin: Recent issues contain useful articles on monetary policy. All these are available on the Reserve Bank's website, [www.rba.gov.au](http://www.rba.gov.au).

(eg The Future of Inflation Targeting, Nov 2004).

## *Long Run Economic Growth Policies (Week 13)*

### **Topic 11: Long Run Economic Growth Policies and Microeconomic Reform**

Forsyth, P. (1999), "Microeconomic Policies and Structural Change", *Economic Group, Reserve Bank of Australia*, Proceedings of a Conference on the Australian Economy in the 1990s, 24-25 July 2000, pp235-267.

(Plus comments by John Quiggin and Richard Snape).

## **Unit Website**

The Unit Website is currently at

<http://online.mq.edu.au/public/BBA214/>

You will find most, if not all, of the information about the course at this site, including lecture notes. You will need to visit the site on a regular basis. The Centre for Flexible Learning provides the following confidentiality statement regarding your online activities:

### **Confidentiality**

The password-protected component of your unit's website is hosted on the Macquarie University Online Teaching Facility (MUOTF). The facility is run by the Centre for Flexible Learning (CFL). Part of the Centre's role is to assist teachers in identifying the needs of students so that course units and teaching resources can be developed in ways that allow students better access to teaching materials and more effective ways of learning and communicating.

MUOTF automatically collects two types of information:

#### **1. Server Usage Information**

The server logs have information on who accesses the site, the location from which the site is accessed, the time and duration of access, and what material is accessed. This information on individuals is available only to CFL specified staff, Deans and Heads of Department, and is used for identifying reported access difficulties, improving server performance and tracing any breaches of security. CFL also uses the information for statistical analysis of access times and locations, and for analysis of other patterns of use. In addition, some summarised information may be available to your convenor, but only after the examination period. In all cases confidentiality is maintained and no information about individuals is released.

Deans and Heads of Department are responsible for aspects of security relating to IT within their area of responsibility. Some recent events suggest that it is essential to allow them access to the Online Teaching Facility.

#### **2. General Unit Management Information**

The software your unit is using tracks information about how you use the teaching material.

This information is available to your convenor and includes your first and last log in, how much of the course material you have looked at, how many discussion messages you have posted and read, and whether you have read your mail. It is important to note that your convenor cannot read your personal mail or annotations.

If you have concerns about confidentiality, contact your unit convenor or CFL:

Manager – Online Learning Systems

Phone: 9850 7852

Email: [ols.manager@cfl.mq.edu.au](mailto:ols.manager@cfl.mq.edu.au)

**BBA 214**

**Macroeconomic Policy and Business**

**2005**

**ESSAY COVER SHEET**

**Due date: Monday, 10 October 2005  
(To be handed in to ERIC)**

**CHECKLIST:**

- 1. Have you made a photocopy of your essay?**
- 2. Have you included an abstract and a bibliography?**
- 3. Do not submit in a manila or plastic folder.**
- 4. Have you read and signed the plagiarism statement?**

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