MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

ECON201 MACROECONOMIC ANALYSIS

UNIT OUTLINE

2007

1. AIMS AND NATURE OF THIS UNIT

Macroeconomics is the study of economic interactions in national and international economies. ECON201 provides a deeper understanding of how the economy works. It looks at the linkages between investment and consumption decisions, government taxation and expenditure decisions, monetary policy, the banking system and the interactions between Australia and the rest of the world. In this unit many we will discuss consumption, saving and investment, unemployment, inflation and business cycles, the term structure of interest rates, stock market indices, and we will investigate the contributions to economic growth and explanations of the balance of payments and exchange rates.

The Economics Major

This unit is a stepping-stone in training to become an economist. Professional economists follow sound rules and must be good at thinking logically and consistently. They must also acquire analytical skills for the application of macroeconomic theory to real world issues.

In ECON201, the focus is on developing skills in the interpretation of macroeconomic data. Rigorous and logical thinking is encouraged through the analysis of policy issues. A variety of techniques including conceptual questions, numerical problems and analytical questions to test understanding of theory, and tutorial presentations to encourage group-work skills, assist in promoting these skills.

Students Taking a Few Courses in Economics

For many ECON201 students, the objective is to learn how different parts of the economy fit together, to understand economic issues and participate in macroeconomic debates. We motivate the use of theory by reference to real world factual examples, by linking models to policy issues, by focusing on international experience and by analysing how different countries interact within this system.

Subject specific learning outcomes:

- Understand the theoretical models that form the body of contemporary macroeconomics;
- Understand and apply macroeconomic models to various economic problems and issues;
- Understand the associated empirical implications and policy issues

Generic learning outcomes:

- Be open to new ways of thinking and appreciate the importance of intellectual curiosity and reflection as the foundation for continuous learning.
- Identify, define and analyse problems and recommend creative solutions within real-world constraints.
- Demonstrate a capacity to work independently including the ability to plan and achieve goals.
- Critically evaluate underlying theories, concepts, assumptions and limitations
- Be intellectually ready to participate in public policy discussions arising in business and government environments;
- Manage, analyse, evaluate and use information efficiently and effectively.

2. ENQUIRIES

There are two lecturers in ECON201:

◊ Natalia Ponomareva (Lecturer-in-charge)　　　Weeks 1-8
   (Room E4A 428, Phone 9850-6194)

◊ Alex Blair　　　　　　　　　　　　　　　　　　Weeks 9-13
   (Room E4A 418, Phone 9850-7897)

For administrative matters, contact the Economics Department Teaching Assistant. For clarification of points in lectures, consult the relevant lecturer. Other academic enquiries should be directed to your tutor. Contact details and consultation times will be released on the unit website. Members of staff also display consultation times on their doors.

When tutors/lecturers are not available for consultation, it is best to telephone or email them, leaving a message with your name and contact details. If your question is of general interest, post it online on the Bulletin Board and it will be answered. Other students can then also benefit from your question and the posted response.

3. LECTURES

There are three one-hour lectures per week which you are expected to attend.

Day:	Monday 9-11am	X5BT1
	Thursday 1-2pm	Mason Theatre
Evening:	Wednesday 6-8pm	C5CT1
	Thursday 6-7pm	C5CT1

Day and evening lectures are given in parallel and students may attend a combination of either to suit their timetable.

4. TUTORIALS

Class lists will be posted on the Website Bulletin Board late in week 2. To change tutorials, apply by e-mail to the Economics Department Teaching Assistant, giving your name and student number and two preferences. Contact details will be provided in the first lecture.

There are eight tutorials in total. The tutorial schedule is given below:

No	Week	Topic	No	Week	Topic
1	3 (13 Aug)	IS-LM Model	5	9 (15 Oct)	Growth theory cont.
2	4 (20 Aug)	AS-AD Model	6	11 (22 Oct)	Expectations
3	6 (3 Sept)	Inflation and economic activity	7	12 (29 Oct)	Open economy: ER, BOP, UIP
4	7 (10 Sept)	Growth theory	8	13 (5 Nov)	Open economy: Mundell-Fleming model

Tutorial Format: The tutorials comprise numerical problems and analytical questions and will be generally available on the unit website one week before the tutorials. There should be the opportunity to explore issues raised in lectures and to ask questions. The tutorials aim to improve understanding of macroeconomic theory and of the policy debates.

Tutorial Presentations: In the first tutorial, students will be placed into groups of 3 - 4. Each group will be allocated a tutorial question and must make a presentation to the class. Your tutor may require a group report to be submitted for grading. The presentation component of tutorials will count for 5% of your final mark.

Tutorial Attendance: To pass ECON201, students must attend and participate in at least six tutorials. You may be excluded from the unit for non-participation if this requirement is not satisfied. If unforeseen circumstances cause you to miss a tutorial, you may attend another group on a once-off basis without notification.

5. ECON201 ON THE WEB

The ECON2001 Macroeconomic Analysis web page address can be found by going to:

http://online.mq.edu.au

Then click on login and enter your username and password. Students can use this site as a major means of obtaining updated information regarding the unit e.g. timetable adjustments, consultation times, lecture summaries, unit outline, etc. The site also contains a discussion board that allows students to make comments and ask questions regarding the unit.

Your username is your Student ID Number. Your password should have been changed for security reasons and is confidential. If you forget your current password or if your account has been disabled, it can be reset by the Library IT Customer Support Desk (ITCSD).

Student Services Website

A wide range of information for Economics students has been collected at:

http://www.efs.mq.edu.au/services/index.htm

Under 'student resources', there is a Resources Directory.

6. ASSESSMENT

The components of assessment in this unit are as follows:

One Mid-semester Test (class test)	30%
Tutorial Participation	5%
Final Examination	65%
Total Assessment	**100%**

Mid-semester test: This will be conducted on Wednesday 03 October, 6-8pm. Lecture topics 1 to 7 are examinable. Students should attend unless medically unfit. If serious illness or misadventure is experienced, advise the Economics Department Teaching Assistant within 48 hours and submit an Advice of Absence form (with attached documentation such as a medical certificate) to the Student Centre. The form is available on the web: **http://www.reg.mq.edu.au/Forms/USSAbsence.pdf**

There will be no catch-up test for the mid-semester test. Given the appropriate evidence of serious illness or misadventure the final exam will be re-weighted.

Final Examination: The examination paper is in two parts:

    Part A: Multiple-Choice Questions

    Part B: Short Answer or Essay Questions

To pass ECON201, students must satisfy **two separate requirements**:

(1)   Accumulate sufficient marks from all assessment tasks and the final examination to justify a passing grade;   **AND**

(2)   Pass the final exam.

It is Economics Department policy that failure in the final examination means automatic course failure notwithstanding any other circumstances.

7. TEXT BOOKS

Textbook (recommended to buy):

Olivier Blanchard & Jeffrey Sheen, *Macroeconomics*, Pearson, 2nd Australasian edition, 2007 (hereafter B&S).

8. SPECIAL CONSIDERATION - FINAL EXAMINATION

In cases of illness or misadventure, you may apply for special consideration. Requests must clearly identify the circumstances - illness, accident or other unavoidable disruption that prevent a student from attending the exam. In every case, students should submit a professional authority form that can be accessed on the web:

    http://www.reg.mq.edu.au/Forms/APSCons.pdf

All requests must be lodged in writing with the Registrar within 5 working days of the exam including full supporting documentation.

Supplementary Examinations

No student affected by illness or misadventure will be offered a supplementary examination unless they have scored a minimum of 50% in the in-course assessments. Students should note that the Economics Department does not adjust grades on the basis of illness or misadventure affecting performance on the final examination.

Notification of Supplementary Examinations

To check if you are offered a supplementary, consult a list to be posted on the web at:

    http://www.efs.mq.edu.au/supexams.htm

Students must make themselves available for an examination normally held in December.

9. CHEATING AND PLAGIARISM

For details of the policy on plagiarism approved by Academic Senate, please refer to:

http://www.student.mq.edu.au/plagiarism

Also refer to the document on the home page for the Division of Economic and Financial Studies: www.efs.mq.edu.au/ugrad.html and click on "Cheating and Plagiarism".

10. WEEK-BY-WEEK TOPIC GUIDE

Topic 1 (week 1 starting 30 July)
Introduction; a brief look at global conditions with a focus on Australia's recent performance; output and business cycles, inflation, unemployment.
** B&S Chs 1, 2
Various statements & speeches on monetary policy in 2005/7" Reserve Bank of Australia, eg
http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/index.html
** Gruen, D. and G. Stevens (2000), "Australian Macroeconomic Performance and Policies in the 1990s", in Gruen and Shrestha (eds*.): The Australian Economy in the 1990*s, Reserve Bank of Australia Conference Proceedings, July.
http://www.rba.gov.au/PublicationsAndResearch/Conferences/2000/GruenStevens.pdf

Topic 2 (week 2 starting 6 August)
The IS -LM model: Short-run goods market and money market equilibrium; monetary policy & fiscal policy; the policy mix – comparing a money supply rule with an interest rate rule.
** B&S Chs 3, 4, 5
** "Monetary Policy" Reserve Bank of Australia
www.rba.gov.au/Education/monetary_policy.html
D Romer (2000), Keynesian Macroeconomics Without the LM Curve, Journal of Economic Perspectives, Spring, pp 149-169, and also NBER Working Paper No. 7461, Cambridge, January. [http://www.nber.org/papers/w7461]

Topic 3   (week 3 starting 13 August)
The labour market; wage and price setting in the medium run; the natural rate of unemployment; tax distortions and full employment.
** B&S Ch 6

Topic 4   (week 4 starting 20 August)
The AS-AD model: All markets together from the short run to the medium run; aggregate supply; aggregate demand with a fixed money supply and with an interest rate rule using a price level target; monetary, fiscal and oil price shocks in the AS-AD model.
** B&S Ch 7
* G Stevens "Inflation Targeting: A Decade of Australian Experience" RBA 2003,
http://www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_apr03/bu_0403_3.pdf
S Grenville "Monetary Policy: The End of History?" RBA Bulletin, July 2001
http://www.rba.gov.au/Speeches/2001/sp_dg_200701.html

Topic 5 (week 5 starting 27 August)
Evolution of the Phillips curve; theories of expected inflation; inflation & economic activity
** B&S Chs 8, 9
  D.Gruen, A Pagan, C Thompson "The Phillips Curve in Australia" RBA 1999, http://www.rba.gov.au/PublicationsAndResearch/RDP/RDP1999-01.html

Topic 6 (week 6 starting 3 September)
The Long run: Sources and theories of economic growth and productivity; convergence across countries - PPP comparisons; growth over 2000 years; savings and capital accumulation; the golden rule savings rate
** B&S Chs 10, 11
P Romer "The Origins of Endogenous Growth" Journal of Economic Perspectives Winter 1994

Topic 7 (week 7 starting 10 September)
Technology, population growth and the Solow model; 'new' vs 'old' economies; IT and growth; technology & unemployment
** B&S Chs 12, 13
* R Gordon "Does the 'New Economy' Measure up to the Great Inventions of the Past?" Journal of Economic Perspectives Fall 2000, & http://papersdev.nber.org/papers/W7833

* J Simon & S Wardrop "Australian Use of Information Technology and its Contribution to Growth" RBA 2002 www.rba.gov.au/PublicationsAndResearch/RDP/RDP2002-02.html

Mid Semester Break (2 Weeks) from 17 September to 01 October

Week 8:

MID-SEMESTER TEST: Wednesday October 3, 6-8pm

The mid-semester test questions will be discussed on Thursday October 4 during the lecture time.

Topic 8 (week 9 starting 8 October)
Expectations - expected presented discounted value; nominal vs real interest rates; interest rates and monetary policy; the Fisher hypothesis; macroeconomic determinants of the yield curve or term structure; and of stock market prices; housing prices; expectations and consumption & investment; Tobin's q; expectations and the IS-LM model.
** B&S Chs 14, 15, 16, 17

Topic 9: **(week 10 starting 15 October)**
   The exchange rate; nominal & real, bilateral & multilateral exchange rates; the balance of payments; interest parity condition; the goods market in an open economy; exchange rates and net exports; J-curve; saving, investment and the trade balance.
**   B&S Chs 18, 19
   Reserve Bank Bulletin, "Recent Trends in World Saving and Investment Patterns" October 2005,
   http://www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_oct05/recent_trends.html

Topic 10: **(week 11 starting 22 October)**
   The Mundell-Fleming model under floating exchange rates (with interest rate setting and inflation targeting); fixed exchange rates and exchange rate crises; exchange rate overshooting; choosing the exchange rate regime.
**   B&S Chs 20, 21
   I MacFarlane "Recent Influences on the Exchange Rate", RBA Bulletin December 2000,
   http://www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_dec00/bu_1200_1.pdf

Topic 11: **(week 12 starting 29 October)**
   Macroeconomic pathologies: the Great Depression; hyperinflation; deflation
**   B&S Chs 22, 23
*   P Krugman, "Can Deflation be Prevented?" 1999, See
   http://web.mit.edu/krugman/www/deflator.html

Topic 12: **(week 13 starting 5 November)**
   A summary of monetary and fiscal policy; conclusions
**   B&S Chs 24, 25, 26, 27

End-Of-Semester Exam: in exam period TBA