



Division of Economic and Financial Studies
Department of Economics

UNIT OUTLINE

ECON311: MACROECONOMIC POLICY

Semester 2, 2008

Professor Lance Fisher
Unit Convenor

1. UNIT DESCRIPTION

This course is concerned with the design and implementation of macroeconomic policy. Macroeconomic theory will form the basis for an evaluation of monetary, fiscal and exchange rate policy as currently practiced in Australia. The course begins with a discussion of the trade-off between inflation and unemployment and how this notion of a trade-off has influenced the design of monetary policy. The evolution of monetary policy to an objective of targeting the rate of inflation is discussed as well as the monetary transmission mechanism with particular reference to the housing market. We then consider fiscal policy and, in particular, the implications of government debt for macroeconomic activity. The effectiveness of monetary and fiscal policy in the standard Mundell-Fleming open-economy model will be considered. Finally, the course considers monetary and fiscal policy in a standard real business cycle model.

The unit-specific skills that ECON311 seeks to impart are an analytical and critical approach to the various competing theories of macroeconomic policy and the policy regimes that have been pursued in Australia and in other developed economies. This unit also seeks to develop generic skills: in particular, skills of critical analysis via evaluation and synthesis of lecture material and course reading; literacy, numeric and information technology skills; communication skills; and problem-solving skills via the essay and the tutorial program.

Unit Goals

After completing the unit students should:

- be familiar with the current settings of monetary and fiscal policy in Australia and elsewhere
- be familiar with the underlying economic theory that shapes the current formulation of monetary and fiscal policy in Australia and in other countries
- be able to critically evaluate the effectiveness of monetary and fiscal policy in achieving stated economic outcomes.
- be familiar with the characteristics and sources of macroeconomic data

Generic skills

The unit will aim to develop generic skills including:

- literacy and numeracy
- effective presentation of knowledge and thought (through undertaking an essay)
- critical evaluation of policy positions with reference to an analytical framework

These skills will be enhanced by the lectures and tutorials which will specifically focus on macroeconomic policy issues in Australia and elsewhere.

2. LECTURER

Lecturer: Professor Lance Fisher
Room 435, Building E4A
Phone No: 9850-8480
Email: lfisher@efs.mq.edu.au

3. LECTURES

Day:	Tuesday	11am – 1pm	W5A T1
Evening:	Tuesday	6pm – 8pm	E5A 131

4. TUTORIALS

Tutorials will be held in Weeks 3, 5, 7, 9, 11, and 13 **ONLY**.

Students will be required to hand-in two sets of assigned tutorial questions. These will be announced on the course website. Both sets of assigned questions will be marked and are each worth 5% of the total marks.

Note that the material covered in the tutorials is examinable in the final examination.

5. ASSESSMENT

The components of assessment in this course are as follows:

Final Examination (2 hours)	65%
Essay	25%
Two Sets of Tutorial Questions	10%

In order to pass this unit you must:

- pass the final exam
- make a satisfactory attempt at all assessment tasks (the essay and assigned tutorial questions)

6. ESSAY

Each student is required to submit an essay (the topic will be announced on the course website soon). One mark per day will be deducted from the final mark for essays submitted after the due date without an approved extension of time. Applications for an extension of time must be made, **via email**, to the lecturer-in-charge (lfisher@efs.mq.edu.au), prior to the due date (which will be announced shortly on the course website).

7. ECON311 FINAL EXAMINATION

This will be held in the University examination period (November 19 to December 5 inclusive) and will be two hours long. Further information on the content of the Final Exam will be provided towards the end of the session.

8. ECON311 WEBSITE

The website for this course can be accessed via Blackboard. Announcements, lecture notes and tutorial materials will be posted on this website.

9. REFERENCES

There is no prescribed textbook for this course. References to textbooks and journal articles are provided in Section 12 under Lecture Topics.

Up-to-date commentaries and data on the Australian economy can be found in the following:

Reserve Bank of Australia, *Bulletin*, published monthly: <http://www.rba.gov.au>
Department of the Treasury, *Economic Roundup*, AGPS, Canberra, published quarterly (available online at <http://www.treasury.gov.au/>)

Data relating to Australia and other countries are also available on the Internet. Useful sites include the following:

ABS Time Series Service: <http://www.abs.gov.au>
Budget Papers for Australia: <http://www.treasury.gov.au/>
National Bureau of Economic Research: <http://www.nber.org/>
Bill Goffe's Resources for Economists on the Internet: <http://rfe.org/>
Google Directory – Economics:
http://directory.google.com/Top/Science/Social_Sciences/Economics/
WebEc (World Wide Web Resources in Economics)
<http://www.helsinki.fi/WebEc/>
Paul Krugman: <http://www.wws.princeton.edu/~pkrugman/>

10. VICTOR ARGY PRIZE FOR ECON311

This prize commemorates Victor Argy who was Professor of Economics at Macquarie University from 1973 until his death in 1993. The prize, to the value of \$350, is awarded for proficiency in ECON311 and is open to all candidates proceeding to the degree of Bachelor.

11. COURSE DIARY 2008

WEEK	LECTURE TOPIC	TUTORIAL TOPIC
1 (August 5)	The trade-off between inflation and unemployment	
2 (August 12)	A Critical Evaluation of the Phillips Curve Relationship	
3 (August 19)	Macroeconomic Policy Design	1: Unemployment and Inflation
4 (August 26)	The Design of Monetary Policy	
5 (September 2)	The Operating Procedures of the Reserve Bank of Australia	2: Policy Design
6 (September 9)	Inflation Targeting	
7 (September 16)	Monetary Policy and Housing Markets	3: Monetary Policy
Midsession Break (September 22 – October 3)		
8 (October 7)	Fiscal Policy and Government Debt	
9 (October 14)	Macroeconomic Stabilization and Fiscal Policy	4: Fiscal Policy
10 (October 21)	Macroeconomic Policy in a Small Open Economy	
11 (October 28)	Exchange Rate Regimes: Fixed or Flexible	5: Monetary and Fiscal Policy in a Small Open Economy
12 (November 4)	Real Business Cycles: Theory, Empirical Regularities and the Role of Policy	
13 (November 11)	Some further Real Business Cycle Regularities	6: Real Business Cycles

12. LECTURE TOPICS

Week 1 (August 5): The Trade-off between Inflation and Unemployment

Mankiw, N. Gregory, *Macroeconomics*, Sixth Edition, Worth Publishers 2007, Chapter 13.

Blanchard, Olivier and Jeffrey Sheen, *Macroeconomics*, Second Edition, Pearson 2007, Chapter 8.

Week 2 (August 12): A Critical Evaluation of the Phillips Curve Relationship

Ball, Laurence and N. Gregory Mankiw (2002), "The NAIRU in Theory and Practice", *Journal of Economic Perspectives*, Volume 16, No. 4 (Fall), 115-136.

Crosby, Mark and Nilss Olekalns (1998), "Inflation, Unemployment and the NAIRU in Australia", *Australian Economic Review*, Volume 31, No. 2 (June), 117-129.

Week 3 (August 19): Macroeconomic Policy Design

Mankiw, N. Gregory, *Macroeconomics*, Sixth Edition, Worth Publishers 2007, Chapter 14.

Blanchard, Olivier and Jeffrey Sheen, *Macroeconomics*, Second Edition, Pearson 2007, Chapter 24.

Week 4 (August 26): The Design of Monetary Policy

Blanchard, Olivier and Jeffrey Sheen, *Macroeconomics*, Second Edition, Pearson 2007, Chapter 25.

MacFarlane, Ian (1999), "Australian Monetary Policy in the Last Quarter of the Twentieth Century", *Economic Record*, Volume 75, No. 230, September, 213-224.

Week 5 (September 2): The Operating Procedures of the Reserve Bank of Australia

Otto, Glenn (2007), "Central Bank Operating Procedures: How the RBA Achieves its Target for the Cash Rate", *Australian Economic Review*, Volume 40, No 2 (June), 216-224.

Dungey, Mardi and Ben Hayward (2000), "Dating Changes in Monetary Policy in Australia", *Australian Economic Review*, Volume 33, No. 3 (September), 281-285.

Week 6 (September 9): Inflation Targeting

Goodfriend, Marvin (2007), “How the World Achieved Consensus on Monetary Policy”, *Journal of Economic Perspectives*, Volume 21, No. 4 (Fall), 47-68.

Stevens, Glenn (2003), “Inflation Targeting: A Decade of Australian Experience”, Reserve Bank of Australia *Bulletin*, April, 17-29

Week 7 (September 16): Monetary Policy and Housing Markets

Otto, Glenn (2007) “The Growth of House Prices in Australian Capital Cities: What Do Economic Fundamentals Explain”, *Australian Economic Review*, Volume 40, No. 3 (September), 225-238.

Debelle, Guy (2008) “A Comparison of the U.S. and Australian Housing Markets” Reserve Bank of Australia *Bulletin*, June, 35-46.

Midsession Break (September 22 – October 3)

Week 8 (October 7): Fiscal Policy and Government Debt

Mankiw, N. Gregory *Macroeconomics*, Sixth Edition, Worth Publishers 2007, Chapter 15.

Blanchard, Olivier and Jeffrey Sheen, *Macroeconomics*, Second Edition, Pearson 2007, Chapter 26.

Week 9 (October 14): Macroeconomic Stabilization and Fiscal Policy

Krugman, Paul (2005), “Is Fiscal Policy Poised for a Comeback”, *Oxford Review of Economic Policy*, Volume 21, No. 4, 515-523.

Olekalns, Nilss (1998), “The Macroeconomic Implications of Current Fiscal Policy”, *Australian Economic Review*, Volume 31, No. 1 (March), 66-72.

Week 10 (October 21): Macroeconomic Policy in a Small Open Economy

Mankiw, N. Gregory, *Macroeconomics*, Sixth Edition, Worth Publishers 2007, Chapter 12.

Blanchard, Olivier and Jeffrey Sheen, *Macroeconomics*, Second Edition, Pearson 2007, Chapter 20.

Stevens, Glenn (2008) “Commodity Prices and Macroeconomic Policy: An Australian Perspective”, Reserve Bank of Australia *Bulletin*, July, 5-12

Week 11 (October 28): Exchange Rate Regimes: Fixed or Flexible

Blanchard, Olivier and Jeffrey Sheen, *Macroeconomics*, Second Edition, Pearson 2007, Chapter 21.

Crosby, Mark (2001) "Currency Unions, Currency Boards and Other Fixed Exchange Rate Arrangements", *Australian Economic Review*, Volume 34, No. 3 (September), 367-372.

Fischer, Stanley (2001) "Exchange Rate Regimes: Is the Bipolar View Correct", *Journal of Economic Perspectives*, Volume 15, No 2 (Spring), 3-24.

Week 12 (November 4): Real Business Cycles – Theory, Empirical Regularities and the Role of Policy

Mankiw, N. Gregory, *Macroeconomics*, Sixth Edition, Worth Publishers 2007, Chapter 12.

Otto, Glenn and Mark Crosby (1995) "Real Business Cycle Models: An Introduction", *Australian Economic Review*, Volume 28, No.3 (September), 55-70

Week 13 (November 11): Some Further Real Business Cycle Regularities

Fisher, Lance, Glenn Otto and Graham Voss (1996) "Australian Business Cycle Facts" *Australian Economic Papers* Vol. 35, No. 67, December, 300-320.

13. EXAMINATIONS

The University Examination period in Second Half Year 2008 is from November 19 to December 5 inclusive.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at

<http://www.reg.mq.edu.au/Forms/APSCon.pdf>

All claims have to be substantiated by a signed ***Professional Authority Form***, and if they are based on non-medical grounds, supporting documentation (such as statutory declarations by independent witnesses, police reports, or statements from sufficiently senior officials in the place of employment) must also be provided.

If accepted, in most cases, the students will be required to sit a supplementary examination on a date set by the Division. So, students who intend to be away must take account of this rule in scheduling any travel after lodging the request.

The format of the supplementary examination may be different from the usual examination. To prevent students from abusing this facility and to protect only the students with genuine reasons, **the result of supplementary examination will replace the result of the usual examination if a student sits a supplementary examination as well as the usual examination**. This implies that a student will fail the unit if he/she fails the supplementary examination regardless of his/her performance in the usual examination. If you believe this rule unfairly disadvantages you, contact the lecturer in charge before lodging the request form.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, i.e. the final day of the official examination period.

14. PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <http://www.student.mq.edu.au/plagiarism/>.

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

15. UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so

that units with the same past performances of their students should achieve similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see:

<http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or
<http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>

16. STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

The Division of Economic and Financial Studies offers additional support for its students such as EFS Resource and Information Centre commonly known as ERIC, Peer Assisted Learning (PAL), etc. Details of these services can be accessed at:
<http://www.efs.mq.edu.au/ss>