

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

BBA 214
Macroeconomic Policy and Business

Semester 2, 2009

Department of Economics

ABOUT THIS UNIT

Macroeconomics is the study of the economy as a whole, both in isolation and in interaction with the global economy. BBA 214 assesses the current state of Macroeconomic theory and in doing so provides a guide to the behavior of a modern industrial economy. Its content mirrors that provided in ECON201 *Macroeconomic Analysis*; however BBA 214 aims to present this material in a manner particularly suited to students in business-oriented programs of study. The major theoretical models of current macro theory will be presented, but the underlying aim is that knowledge of these models will be of practical advantage to students of business and commerce. Its emphasis therefore will be on practical applications of these theoretical models. In particular, students completing the Unit will be able to understand the policy debates current in this period of extreme disorder in the global economy and financial markets, and assess the underlying theoretical approaches of the opposing sides in those policy debates.

TEACHING STAFF

Alex Blair (Unit coordinator), Room: E4A418
Phone: 9850 7897, email: ablair@efs.mq.edu.au

All administrative enquiries should be directed to the lecturer-in-charge in person during consultation hours. Consultation times will be released on the Unit website. Questions on the content of the Unit should be posted online in the Discussions section of the Black Board, where the questions and resulting discussion can be of benefit to other students in the Unit.

CLASSES

- This unit provides 3 hours face-to-face teaching per week consisting of 1 x 2 hour lecture and 1 x 1 hour tutorial
- The timetable for lectures and tutorials can be found on the University web site at: <http://www.timetables.mq.edu.au/>. Consult this website for times and locations of tutorials.

There are two streams of lectures each week at the following times and places:

Day Lectures: Wednesday 11-1pm W5C 320

Evening Lectures: Monday 5 - 7pm W5C 220

REQUIRED AND RECOMMENDED TEXTS

Recommended Text:

Olivier Blanchard & Jeffrey Sheen, *Macroeconomics*, Pearson, 3rd Australasian edition, 2009 (hereafter B&S).

The text is available for purchase at Co-op Bookshop.

There is a free online study resource:

http://wps.pearsoned.com.au/au_be_blanchardsheen_macroec_3/118/30377/7776691.cw/index.html

UNIT WEB PAGE

Lecture and tutorial material, as well as up to date information concerning any aspect of the unit, including any changes to the schedule, will be available to students by logging on to Blackboard at <http://learn.mq.edu.au>.

LEARNING OBJECTIVES AND OUTCOMES

Subject specific learning outcomes:

- Understanding of the theoretical models that form the body of contemporary macroeconomics;
- An ability to apply macroeconomic models to various economic problems and issues;
- An ability to use computer software to practice the application of macroeconomic models
- An ability to critically evaluate public policy prescriptions based on understanding of the underlying theoretical models

Generic learning outcomes:

- An ability to identify, define and analyse problems and recommend creative solutions within real-world constraints.
- Development and demonstration of a capacity to work independently, including the ability to plan and achieve goals.
- An intellectual readiness to participate in public policy discussions arising in business and government contexts;
- An ability to acquire, analyse, evaluate and make use of information, efficiently and effectively.

BBA 214 TUTORIAL PROGRAM

There are 10 tutorials in total. Tutorials will start in week 3. Due to the Public Holiday there will be no tutorial in Week 8 (starting October 5).

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.

ASSESSMENT

The components of assessment in this course are as follows:

Mid-Semester Examination	30%	September 14 th
Modelling Exercise	15%	November 2 nd
Tutorial Exercise	15%	
Final Examination	40%	To be advised

Failure to attend the Mid-Semester or Final Exam without the submission of an Application for Special Consideration, on the grounds of illness or other unavoidable disruption, together with the required supporting documentation, will result in a mark of zero for the assessment.

If you wish to advise of your absence from a Mid-Semester test for reason of illness or other unavoidable disruption you must fill out an Application for Special Consideration. The forms are available from the Student Enquiry Service or online at <http://www.reg.mq.edu.au/Forms/APSCon.pdf>. The completed form with appropriate supporting documentation must be submitted to the Student Enquiry Service, not to the Faculty of Business and Economics.

For absence related to illness you will need to include an EFS Professional Authority Advice Form. Students granted Special Consideration for a missed Mid-Semester exam will not be allowed to sit the Exam at a different time. The value of the Final Exam will be increased on a pro rata basis. Granting of Special Consideration for the Final Exam will permit students to sit for a supplementary examination.

More detail on the policy and required documentation can be found at http://www.mq.edu.au/policy/docs/s/procedure_specialconsideration.htm

A 2.5 (2 ½) hour Final Examination for this unit will be held during the University Examination period. 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 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 the policy and required documentation can be found at

http://www.mq.edu.au/policy/docs/s/procedure_specialconsideration.htm

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period

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, the final day of the official examination period.

A further requirement is that **students must pass the Examination component** of the assessment in order to pass the course.

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

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.

A NOTE ON PASSING BBA 214

The assessment breakdown is designed, firstly, to combine the task of assessment with the task of learning – it is designed to give your learning a focus. Secondly, it is structured so that students from any background, Economics or other, will have plenty of warning of the need to concentrate their efforts in order to pass the Unit.

In other words it should be very difficult to fail for students who make a genuine effort. An unseen examination component has always been a key element of assessment in the Faculty of Business and Economics – this is an excellent instrument which I would apply even if it were not required, as the clearest and fairest means of assessing a student's progress in a subject. In this Unit, around half of the unseen exam component is accounted for by the Mid-Semester exam. A poor result here would be received in plenty of time to correct whatever problem has emerged in your study habits, so that you can retrieve the situation by better performance in the other assessments. **Do heed the warnings given by the Mid-Semester exam, and by the other in-semester assessments.** If you do give a poor performance during the semester, but do not heed that warning, then it will be **next to impossible to pass the Unit**. Assessment of your performance in the Unit is not arbitrary. On the contrary, there are a set of clearly identifiable skills and knowledge that you must have in order to pass, and for those who will fail the Unit it will be because they have failed to master, by any fair and objective measure, those skills and that knowledge. You will have plenty of warning, through your performance in tutorials and in the Mid-Semester Exam, that you are in danger of falling into this group. If you fail to heed those warnings when given to you, there will not be time for any remedial action.

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>.

TOPIC GUIDE

Topic 1

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 2005/9" 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 1990s*, Reserve Bank of Australia Conference Proceedings, July.

<http://www.rba.gov.au/PublicationsAndResearch/Conferences/2000/GruenStevens.pdf>

Topic 2

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

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

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

Evolution of the Phillips curve; theories of expected inflation

** B&S Ch 8

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

Expectations - expected present 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 7

The macroeconomics of financial market crises.

** B&S Chs 22

* L Ellis "The Global Financial Crisis: Causes, Consequences and Countermeasures" RBA Bulletin, May 2009

http://www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_may09/Pdf/bu_0509_4.pdf

Topic 8

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 9

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 10

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 11

Technology, population growth and the Solow model; institutions, technological progress and growth

** 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