

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

# ECON311 Macroeconomic Policy

Semester 2, 2009

Unit Outline

Department of Economics

## **1. UNIT DESCRIPTION**

This course is concerned with the design and implementation of macroeconomic policy. The course begins with a discussion of the notion of a trend and a cyclical in macroeconomic data. The cyclical component in real GDP is often referred to as the business cycle and moderation of the business cycle is the fundamental purpose of stabilization policy. We will discuss stabilization policy in an analytical framework that takes account of how central banks in industrialized countries currently set monetary policy. This analytical framework will be used to discuss the causes and consequences of the global financial crisis of 2008. We will also discuss the response of both monetary and fiscal policy in Australia to this crisis and more broadly to other shocks that affect the Australian economy. In this discussion, we will broaden our analytical framework to include a richer discussion of the role the exchange rate plays in the formulation of macroeconomic policy. The unit will conclude with a discussion of the determinants of the trend component in real GDP. This discussion will review the Solow growth model and introduce the highly influential model of endogenous growth attributable to Paul Romer.

The unit-specific skills that ECON311 seeks to impart are an analytical framework to describe and evaluate macroeconomic policy as practiced in industrialized countries and an ability to present a reasoned argument as to how macroeconomic policy should be formulated as economic events and policy goals evolve. 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)	60%
Essay	25%
Two Sets of Tutorial Questions	15%

In order to pass this unit you must:

- achieve an overall mark of 50%
- 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 18 to December 4 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

The prescribed textbook for this course is:

Jones, Charles I., *Macroeconomics* Norton 2008.

We will cover most of the chapters in this textbook. Specific reference to the chapters in the textbook and to journal articles and other materials is provided in Section 11 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/](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/~pkgugman/>

## 10. COURSE DIARY 2009

<b>WEEK</b>	<b>LECTURE TOPIC</b>	<b>TUTORIAL TOPIC</b>
1 (August 4)	Trends and Cycles in Macroeconomic Data	
2 (August 11)	Economic Shocks and Short-Run Fluctuations in Economic Activity	
3 (August 18)	Contemporary Monetary Policy	1: Aggregate Demand Shocks, the Real Interest Rate and Output
4 (August 25)	The Operating Procedures of the Reserve Bank of Australia	
5 (September 1)	Inflation Targeting and the Evolution of Monetary Policy in Australia	2: Monetary Policy
6 (September 8)	Stabilization Policy and the AS/AD Framework	
7 (September 15)	Stabilization Policy and Taylor Rules	3: Stabilization Policy
<b>Midsession Break (September 21 – October 2)</b>		
8 (October 6)	The Global Financial Crisis	
9 (October 13)	Fiscal Policy and Government Debt	4: The Global Financial Crisis
10 (October 20)	Exchange Rate Regimes and Macroeconomic Policy	
11 (October 27)	Economic Growth I: Capital Accumulation and the Solow Growth Model	5: Fiscal and Monetary Policy in a Small Open Economy
12 (November 3)	Economic Growth II: Determinants of Long-run Economic Growth	
13 (November 10)	Macroeconomic Policy: The Current Consensus and Unresolved Issues	6: Economic Growth

## 11. LECTURE TOPICS

### **Week 1 (August 4): Trends and Cycles in Macroeconomic Data**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 7, pages 165-175.  
Chapter 8, pages 189-201.  
Chapter 9, entire chapter.

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

### **Week 2 (August 11): Economic Shocks and Short-Run Fluctuations in Economic Activity**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 10, entire chapter.

### **Week 3 (August 18): Contemporary Monetary Policy**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 11, entire chapter.

### **Week 4 (August 25): 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.

### **Week 5 (September 1): Inflation Targeting and the Evolution of Monetary Policy in Australia**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 8, pages 202-204.

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

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

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

### **Week 6 (September 8): Stabilization Policy and the AS/AD Framework**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 12, pages 297-316.

## **Week 7 (September 15): Stabilization Policy and Taylor Rules**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 12, pages 316-329.  
Chapter 12, worked exercise, pages 333-334.

### **Midsession Break (September 21 – October 2)**

## **Week 8 (October 6): The Global Financial Crisis**

Jones, Charles I. ‘The Global Financial Crisis of 2007-20??

This is a supplement to the textbook, Charles I. Jones, *Macroeconomics*, Norton, 2008. This is **essential** reading. It can be found on the website of Professor Charles I. Jones, or directly at:

<http://www.stanford.edu/~chadj/CurrentEvents2009.pdf>

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

Ellis, Luci (2009) “The Global Financial Crisis: Causes, Consequences and Countermeasures” Reserve Bank of Australia *Bulletin*, May, 24-34.

Gruen, David (2009) “Reflections on the Global Financial Crisis” *Economic Roundup* Issue 2, pages 51-65. (*Economic Roundup* is a publication of the Australian Treasury). This reference can be found at:

[http://www.treasury.gov.au/documents/1574/PDF/05\\_Reflections\\_on\\_the\\_Global\\_Financial\\_Crisis.pdf](http://www.treasury.gov.au/documents/1574/PDF/05_Reflections_on_the_Global_Financial_Crisis.pdf)

Sheen, Jeffrey and Olivier Blanchard, *Macroeconomics*, Third edition, Pearson 2009, Chapter 22, pages 514-524.

Taylor, John B. (2008) “The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong” Speech to the Bank of Canada, November. A written version of this speech can be obtained at:

<http://www.stanford.edu/~johntayl/FCPR.pdf>

## **Week 9 (October 13): Fiscal Policy and Government Debt**

Jones, Charles I. *Macroeconomics*, Norton 2008  
Chapter 8, pages 204-209.  
Chapter 13, entire chapter.

Commonwealth of Australia, *Intergenerational Report 2007*. (Read the Executive Summary on pages vii-xv). This report may be accessed at:

[http://www.treasury.gov.au/documents/1239/PDF/IGR\\_2007\\_final\\_report.pdf](http://www.treasury.gov.au/documents/1239/PDF/IGR_2007_final_report.pdf)

de Silva, Ashton and Sinclair Davidson (2009) “Are Retail Sales Well Above Expectations”  
Institute of Public Affairs, June. This reference can be found at:

[http://www.ipa.org.au/library/publication/1244764184\\_document\\_desilva\\_davidson\\_retail\\_sales.pdf](http://www.ipa.org.au/library/publication/1244764184_document_desilva_davidson_retail_sales.pdf)

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

Taylor, John B. (2009) “The Lack of an Empirical Rationale for the Revival of Discretionary Fiscal Policy” *American Economic Review*, Papers and Proceedings, May, 550-555.  
This article can also be accessed at:

[http://www.stanford.edu/~johntayl/AEA\\_Paper\\_on\\_Fiscal\\_Policy\\_2009\\_JBT.pdf](http://www.stanford.edu/~johntayl/AEA_Paper_on_Fiscal_Policy_2009_JBT.pdf)

### **Week 10 (October 20): Exchange Rate Regimes and Macroeconomic Policy**

Jones, Charles I. *Macroeconomics*, Norton 2008  
Chapter 14, pages 361-365, 377-385.  
Chapter 15, entire chapter.

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

### **Week 11 (October 27): Economic Growth I: Capital Accumulation and the Solow Growth Model**

Jones, Charles I. *Macroeconomics*, Norton 2008,  
Chapter 5, entire chapter.

### **Week 12 (November 3): Economic Growth II: Determinants of Long-Run Economic Growth**

Jones, Charles I. *Macroeconomics*, Norton 2008  
Chapter 6, pages 95-111.

### **Week 13 (November 10): Macroeconomic Policy: The Current Consensus and Unresolved Issues**

Jones, Charles I. *Macroeconomics*, Norton 2008  
Chapter 16, entire chapter excluding appendix.

## 12. 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.

## 13. EXAMINATIONS

The University Examination period in Second Half Year 2009 is from November 18 to December 4 inclusive.

You are expected to attend the final 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 the final 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 Faculty. 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 Faculty of Economics and Business 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>