

MACQUARIE  
UNIVERSITY



FACULTY OF  
BUSINESS AND ECONOMICS

# ECON204 Macroeconomic Analysis

Semester 2, 2010

*Department of Economics*

## ABOUT THIS UNIT

Macroeconomics is the study of economic interactions in national and international economies. ECON204 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.

In this unit, 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 assist in promoting these skills.

For many ECON204 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 analyzing how different countries interact within this system.

## TEACHING STAFF

Natalia Ponomareva (unit coordinator), Room: E4A428  
Phone: 98506194, email: [nponomar@efs.mq.edu.au](mailto:nponomar@efs.mq.edu.au)

For clarification of points in lectures, you should consult the lecturer. Other academic enquiries should be directed to your tutor. Contact details and consultation times will be released on the unit website. When tutors/lecturers are not available for consultation, it is best to email them, leaving a message with your name and contact details. If your question is of general interest, post it online on the Black Board and it will be answered. Other students can then also benefit from your question and the posted response.

All enquiries concerning the administration of the unit should be addressed to Natalia Ponomareva by email.

## 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/>

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

<b>Day Lectures:</b>	Wednesday 1-3pm	W5B MACTH
<b>Evening Lectures:</b>	Monday 6-8pm	W5A PRICE

## REQUIRED AND RECOMMENDED TEXTS

### Recommended Text:

Olivier Blanchard & Jeffrey Sheen, *Macroeconomics*, Pearson, 3<sup>rd</sup> 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](http://wps.pearsoned.com.au/au_be_blanchardsheen_macroec_3/118/30377/7776691.cw/index.html)

You can test yourself with many practice questions for each chapter. Also, there are links to interesting and relevant articles on topical issues. No password is required.

## 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:

- 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.

## ECON204 TUTORIAL PROGRAM

There are 10 tutorials in total. Tutorials will start in week 3. There will be no tutorial in week 8 (starting October 4).

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.

## ECON204 ONLINE QUIZZES

There will be 4 online quizzes in this course. These will be available on Blackboard under "Assessments" on the following dates:

Quiz	Released	Availability
1	Week 3	3pm 20.08 – 6pm 24.08
2	Week 6	3pm 10.09 – 6pm 14.09
3	Week 9	3pm 15.10 – 6pm 19.10
4	Week 12	3pm 5.11 – 6pm 9.11

Make sure that you allocate sufficient time to do the quizzes. Do not expect to complete them at the last minute - computers are not always available. Computer unavailability is not an acceptable excuse. On the quiz page, you will find two buttons in the top and bottom left hand corners - "Save all", "Finish". You can save answers individually or you can save all your work by clicking on the "Save all" button and continue the assignment at a later time. It is recommended that you save your answers regularly. Provided a quiz is still available and not yet submitted, you can correct any previously saved answer. DO NOT CLICK on the "FINISH" button unless you have completed the assignment and want to get it graded. You can submit the assignment only "ONCE". If you do not submit answers by the deadline for a quiz, you will not get marks. Each quiz must be submitted by the due date. It cannot be helped if you mistakenly submit your quiz too early. The quizzes will be computer-marked. You will be able to see your results once the quiz is finished

## ASSESSMENT

The components of assessment in this course are as follows:

	%
Online quizzes	10
Mid Semester Test	30
Final exam	60
Total	100

**The mid-semester tests will be held in class in week 7 on Monday September 13 and Wednesday September 15. Everybody should attend the exam in the stream they are enrolled in.**

Failure to attend 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/APScons.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 test will not be allowed to sit the test 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.student.mq.edu.au/ses/Special%20Consideration.html>

A 2 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 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 the policy and required documentation can be found at [http://mq.edu.au/policy/docs/special\\_consideration/policy.html](http://mq.edu.au/policy/docs/special_consideration/policy.html)

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.

## **ACADEMIC HONESTY AND PLAGIARISM**

Plagiarism and deception represent a serious breach of the University's rules and carry significant penalties. You must read the University's practices and procedures on plagiarism and deception. These are available on the web at:

[http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

The policies and procedures explain what plagiarism and deception are, the procedures that will be taken in cases of suspected plagiarism and/or deception, 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.

## **DETERMINATION OF OVERALL GRADE**

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). On occasion, the raw mark that you receive for the unit may not be the same as the SNG that you receive. Under the senate guidelines, results may be scaled to ensure that there is a degree of

comparability across the university and that units with the same past performances of their students should achieve similar results.

## 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

\*\* denotes obligatory reading and \*optional reading.

### 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 2009/10" Reserve Bank of Australia, eg [www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/index.html](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/publications/confs/2000/gruen-stevens.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

<http://www.rba.gov.au/monetary-policy/index.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 [[www.nber.org/papers/w7461](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

\*M Plumb, M Baker and G Spence "The Labour Market during the 2008–2009 Downturn", The RBA Bulletin, March 2010

<http://www.rba.gov.au/publications/bulletin/2010/mar/1.html>

\* N Ponomareva and J Sheen "Cyclical Flows in Australian Labour Markets," *forthcoming in Economic Record*, 2010. <http://www3.interscience.wiley.com/cgiin/fulltext/123505899/PDFSTART>

#### **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/publications/bulletin/2003/apr/pdf/bu-0403-3.pdf>

#### **Topic 5**

*Evolution of the Phillips curve; theories of expected inflation; the sacrifice ratio*

\*\* B&S Ch 8, 9

\* D Gruen, A Pagan, C Thompson "The Phillips Curve in Australia" RBA 1999, <http://www.rba.gov.au/publications/rdp/1999/1999-01.html>

#### **Topic 6**

*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**

*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](http://www.rba.gov.au/PublicationsAndResearch/RDP/RDP2002-02.html)

#### **Topic 8**

*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 9**

*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](http://www.rba.gov.au/PublicationsAndResearch/Bulletin/bu_may09/Pdf/bu_0509_4.pdf)

#### **Topic 10**

*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/publications/bulletin/2005/oct/pdf/bu-1005-4.pdf>

**Topic 11**

*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/publications/bulletin/2000/dec/pdf/bu-1200-1.pdf>