



# ECON311 Macroeconomic Policy

Semester 2, 2010

Unit Outline

Department of Economics

**ECON311  
MACROECONOMIC POLICY**

**MACQUARIE UNIVERSITY  
FACULTY OF BUSINESS AND ECONOMICS  
UNIT OUTLINE**

**Second Semester – 2010**

**Unit convenor: Lance Fisher**

**Prerequisites:** Macroeconomic Analysis (ECON204) and Introductory Econometrics (ECON241)

**Corequisites:** Nil

**Credit Points:** 3

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult the unit convenor.

**ABOUT THIS UNIT**

The unit is concerned with the design and implementation of macroeconomic policy in Australia and in other industrialised economies. The unit is one of the capstone units for the BEc degree. The primary objective of the unit is to provide students with a thorough understanding of how macroeconomic policy is designed, formulated and implemented in Australia and elsewhere. The unit will provide students with a thorough understanding of contemporary macroeconomic policy. Macroeconomic policy will be discussed in the context of a consistent and modern analytical framework. There will be reference throughout the unit to macroeconomic data from Australia and other countries to put contemporary macroeconomic policy in a historical and contemporary context.

This unit is worth three credit points.

**TEACHING STAFF**

	<b>Room</b>	<b>Telephone</b>	<b>Email</b>
<b>Unit Convenor and Administrator</b>			
▪ Lance Fisher	E4A 435	9850 8480	<a href="mailto:lance.fisher@mq.edu.au">lance.fisher@mq.edu.au</a>

**CONSULTATION TIMES**

My consultation times will be posted on the unit's website in Week 1. I will be available for three hours per week to conduct consultations on a drop-in basis.

You are encouraged to seek help at a time that is convenient to you during my regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours. I will not conduct any consultations by e-mail. Please note however that I will only answer emails sent from official Macquarie University email accounts. You may, however, phone staff during their consultation hours.

Students experiencing significant difficulties with any topic in the unit are strongly encouraged to seek assistance immediately.

## CLASSES

There is one three-hour lecture per week at the following time and place:

Day Class: Tuesday 10am – 1pm E7B T3  
OR  
Evening Class: Tuesday 6pm – 9pm E5A 131

The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>

## TEXT

The prescribed text for the unit is:

Jones, Charles I., *Macroeconomics Economic Crisis Update*, International Student Edition, Norton 2010.

This edition of the textbook differs from the first edition (Jones, Charles I., *Macroeconomics*, Norton, 2008) in one respect only: it contains two additional chapters on the global financial crisis. Students can purchase either edition. A pdf of the two additional chapters on the global financial crisis will be placed on the unit website for the benefit of those who use the 2008 edition.

Two copies of the 2010 edition of the textbook have been placed in the Reserve Section of the Library. Two copies of the 2008 edition can also be found there.

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/>  
Reserve Bank of Australia: <http://www.rba.gov.au>  
National Bureau of Economic Research: <http://www.nber.org/>

## UNIT WEB PAGE

Course material is available on the learning management system (Blackboard).

The following information will be available on Blackboard:

• Unit Outline	• Announcements
• Lecture slides and exercises	• Lecture exercises solutions
• Information on Assessments	• Contact details
• Consultation hours	• Other relevant material

You are strongly encouraged to regularly visit the website and use it as a resource centre to assist with your learning.

If you are unable to access the website because you are not aware of or have forgotten your username and password, please contact the IT helpdesk located on Level 1 of the Library on 9850 6500. The IT helpdesk will also be able to assist you with using Blackboard. Please note that there is also a help feature in Blackboard and you may refer to this instead for assistance in using Blackboard. If you have contacted the helpdesk in regard to your username and password and you are still unable to login to Blackboard you should then contact the Unit Administrator.

Please remember to log out when you have finished using Blackboard. Failure to do so could result in unauthorised access to your Blackboard account.

## LEARNING OUTCOMES

At the end of this course you will be able to:

- Understand how the current settings of monetary and fiscal policy were determined in the context of the current economic environment and within a logically consistent analytical framework.
- Evaluate the effectiveness of current monetary and fiscal policy in achieving stated economic outcomes and be able to participate to the economic policy debate in an informed way.
- Source and use macroeconomic data.

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop students' generic skills in a range of areas. One of the aims of this unit is that students develop their skills in the following:

*Foundation skills of literacy, numeracy and data gathering technology;*  
*Critical analysis skills;*  
*Problem-solving skills;*  
*Engaged and Ethical Local and Global citizens;*  
*Capable of Professional and personal Judgement and Initiative;*  
*Creative thinking skills.*

## LEARNING AND TEACHING STRATEGY

This unit is taught in a three hour block as a lecture. However, part of the last hour of the lecture will generally be allocated to working through assigned questions either from the textbook or developed by the lecturer. The purpose of this is to reinforce the material covered in the lecture.

### **Lectures – large group learning (3 hour block each teaching week)**

Lectures are intended to provide overviews of the conceptual framework and economic data that are critical to the core themes of the unit namely, the design and implementation of macroeconomic policy in Australia and elsewhere. Students are expected to read the relevant chapters and assigned readings before each lecture.

### **Independent learning – learning by doing (about 7 hours each teaching week and 10 hours each week during the 2-week mid-semester recess)**

ECON311 relies heavily on independent learning where students read the relevant chapter and assigned journal articles, revise the lecture notes, prepare answers to the assigned questions covered in the last hour of the lecture and extend themselves by doing additional reading, questions, exercises, problems and sourcing macroeconomic data.

At the end of each week, solutions to the assigned questions worked through in the last hour of that weeks lecture will be posted on the unit website.

## LECTURE PROGRAM

### **Week 1: Trends and Cycles in Macroeconomic Data**

Jones, Charles I. *Macroeconomics*, Norton (both 2008 and 2010 editions)  
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: Economic Shocks and Short-Run Fluctuations in Economic Activity**

Jones, Charles I. *Macroeconomics*, Norton (both editions)  
Chapter 10, entire chapter.

### **Week 3: Contemporary Monetary Policy**

Jones, Charles I. *Macroeconomics*, Norton (both editions)  
Chapter 11, entire chapter.

### **Week 4: 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: Inflation Targeting and the Evolution of Monetary Policy in Australia**

Jones, Charles I. *Macroeconomics*, Norton (both editions)  
Chapter 8, pages 202-204.

Richards, Tony and Tom Rosewall (2010), “Measures of Underlying Inflation”, Reserve Bank of Australia *Bulletin*, March, 7-12.

Lim, G.C. (2009), “Inflation Targeting”, *Australian Economic Review*, Volume 42, No 1, 110-118.

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: Stabilization Policy and the AS/AD Framework MIDSEMESTER TEST**

Jones, Charles I. *Macroeconomics*, Norton (both editions)  
Chapter 12, pages 297-316.

### **Week 7: Stabilization Policy and Taylor Rules**

Jones, Charles I. *Macroeconomics*, (both editions)  
Chapter 12, pages 316-329.  
Chapter 12, worked exercise, pages 333-334.

### **MID-SEMESTER BREAK**

### **Week 8: The Global Financial Crisis**

Jones, Charles I. *Macroeconomics*, Norton 2010 (Economic Crisis update edition)  
Chapter 13, entire chapter  
Chapter 14, entire chapter

For the benefit of those who are using the 2008 edition, I have placed a pdf of these two chapters on the unit website.

Connolly, Ellis (2009) “Banking Crises and Economic Activity: Observations from Past Crises in Developed Countries”, *Economic Papers*, Volume 28, Issue 3, September, 206-216.

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

Edey, Malcolm (2009) “The Global Financial Crisis and its Effects” *Economic Papers*, Volume 28, Issue 3, September, 186-195.

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.

Stevens, Glenn (2009) “The Conduct of Monetary Policy in Crisis and Recovery”, Reserve Bank of Australia *Bulletin*, November, 17-23.

## **Week 9: Fiscal Policy and Government Debt**

### **ASSIGNMENT DUE: 5pm October 13 in BESS**

Jones, Charles I. *Macroeconomics*, Norton  
Chapter 8, pages 204-209 (both editions).  
Chapter 15, 2010 edition, (or Chapter 13, 2008 edition) entire chapter

Commonwealth of Australia, *Intergenerational Report 2010*. (Read the Executive Summary on pages vii-xxvi). This report may be accessed at:

<http://www.treasury.gov.au/igr/igr2010/>

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\\_retailsales.pdf](http://www.ipa.org.au/library/publication/1244764184_document_desilva_davidson_retailsales.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: Exchange Rate Regimes and Macroeconomic Policy**

Jones, Charles I. *Macroeconomics*, Norton  
Chapter 16, 2010 edition, pages 409-413, 425-431  
(or Chapter 14, 2008 edition, pages 361-365, 377-383)  
Chapter 17, 2010 edition, (or Chapter 15, 2008 edition) entire chapter

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

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

### **Week 11: Economic Growth I: Capital Accumulation and the Solow Growth Model**

Jones, Charles I. *Macroeconomics*, (both editions)  
Chapter 5, entire chapter.

### **Week 12: Economic Growth II: Determinants of Long-Run Economic Growth; Romer's model**

Jones, Charles I. *Macroeconomics*, (both editions)  
Chapter 6, entire chapter including appendix

### **Week 13: Macroeconomic Policy: The Current Consensus and Unresolved Issues**

Jones, Charles I. *Macroeconomics*, Norton  
Chapter 18, 2010 edition, (or Chapter 16, 2008 edition) entire chapter

## SUMMARY OF LECTURE PROGRAM

<b>Week</b>	<b>Lecture</b>
<b>1 (August 3)</b>	Trends and Cycles in Macroeconomic Data
<b>2 (August 10)</b>	Economic Shocks and Short-Run Fluctuations in Economic Activity
<b>3 (August 17)</b>	Contemporary Monetary Policy
<b>4 (August 24)</b>	The Operating Procedures of the Reserve Bank of Australia
<b>5 (August 31)</b>	Inflation Targeting and the Evolution of Monetary Policy in Australia
<b>6 (September 7)</b>	<b>Mid-Semester Test</b> Stabilization Policy and the AS/AD Framework
<b>7 (September 14)</b>	Stabilization Policy and Taylor Rules
<b>Mid-semester Break</b>	
<b>8 (October 5)</b>	The Global Financial Crisis
<b>9 (October 12)</b>	<b>Assignment Due (in BESS by 5pm October 13)</b> Fiscal Policy and Government Debt
<b>10 (October 19)</b>	Exchange Rate Regimes and Macroeconomic Policy
<b>11 (October 26)</b>	Economic Growth I: Capital Accumulation and the Solow Growth Model
<b>12 (November 2)</b>	Economic Growth II: Determinants of Long-run Economic Growth
<b>13 (November 9)</b>	Macroeconomic Policy: The Current Consensus and Unresolved Issues

**RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES**

	<b>Assessment Task 1</b>	<b>Assessment Task 2</b>	<b>Assessment Task 3</b>
Title/Name	Midsession Exam	Assignment	Final Exam
Description	One (1) hour (plus 10 minutes reading time)	Provide a short answer to questions either of an analytical nature and/or based on Australian data	Two (2) hours (plus 10 minutes reading time)
Due Date	<b>Week 6 (Tuesday September 7)</b>	<b>Week 9 (Wednesday, October 13 by 5pm)</b>	
% Weighting	20	20	60
Grading method - marking criteria/ standards - expectations in relation to presentation - referencing requirements	In the last hour of each lecture, worked exercises on the lecture material will be covered.  Your midsession exam is one (1) hour plus 10 minutes reading time. It will be based primarily on the exercises covered in the last hour of lectures presented from Weeks 1 to 5.	Provide a clear analytical framework in which to express your answers. You may need to reference Australian data.  You do not need to provide an extensive list of references in your answers.	To be held in the University Examination Period for Session 2, 2010.  The final exam will be based on lectures from Weeks 1 to 13 with an emphasis on material presented after the midsession examination
Submission Method		Submit in BESS  Keep a copy of your assignment	
Learning Outcomes assessed:			
1	Knowledge of material presented in lectures and textbook	Knowledge of material presented in lectures and textbook  Familiarity with Australian macroeconomic data	Knowledge of material presented in lectures and textbook
2	Problem Solving using analytical methods	Discuss issues in an analytical framework with reference to Australian data	Use analytical methods to answer questions
3	Clear and concise English expression	Clear and concise English expression	Clear and concise English expression

A final examination is included as an assessment task for this unit to provide assurance that:

- i) the product belongs to the student and
- ii) the student has attained the knowledge and skills tested in the exam.

A 2 hour final examination for this unit will be held during the University Examination period.

The University Examination period in Second Half Year 2010 is from 15 November to 3 December.

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. The University's policy on special consideration process is available at [http://www.mq.edu.au/policy/docs/special\\_consideration/policy.html](http://www.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.

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at:

<http://www.mq.edu.au/policy/docs/examination/policy.htm>

### **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.

### **ACADEMIC HONESTY**

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.

Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at [http://www.mq.edu.au/policy/docs/academic\\_honesty/policy.html](http://www.mq.edu.au/policy/docs/academic_honesty/policy.html)

## **GRADES**

Please refer to relevant Bachelor Degree rule in the Handbook of Undergraduate Studies.

## **GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING**

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

[http://www.businessandconomics.mq.edu.au/for/new\\_and\\_current\\_students/undergraduate/admin\\_central/grade\\_appeals](http://www.businessandconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals).

## **SPECIAL CONSIDERATION**

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at:

[http://www.mq.edu.au/policy/docs/special\\_consideration/procedure.html](http://www.mq.edu.au/policy/docs/special_consideration/procedure.html)

## **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 Business and Economics offers additional support for its students such as the Faculty of Business and Economics Student Services, commonly known as BESS (located at E4B 106), Peer Assisted Learning (PAL), etc. Details of these services can be accessed at <http://www.businessandconomics.mq.edu.au/current/undergraduate/bess>

## **IT CONDITIONS OF USE**

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when utilising University IT facilities. The following regulations apply to the use of computing facilities and online services:

- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved unit is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.