



**ECON490/861**  
**Advanced Macroeconomics**

**Semester 2, 2010**

**Unit Outline**

**Department of Economics**

# ECON490/861 ADVANCED MACROECONOMICS

## MACQUARIE UNIVERSITY FACULTY OF BUSINESS AND ECONOMICS UNIT OUTLINE

**Second Semester – 2010**

**Unit convenor: Lance Fisher**

**Prerequisites:** ECON311 for ECON490; no prerequisite for ECON861

**Credit Points:** 4 for ECON 861; 3 for ECON490

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

This unit presents the modern view of macroeconomics. This view is based firmly on microeconomic foundations. We will develop macroeconomic models which are based on the optimizing behaviour of private agents and of the government in an open economy framework. There are two important advantages of this approach. First, macroeconomic issues can be discussed in a way that is fully consistent with microeconomic behaviour. Second, because this approach is based on solid microeconomic theory, it can be used to evaluate the welfare consequences of government policy. The empirical regularities that have been found in macroeconomic data will also be discussed and used to evaluate the theory we develop.

### 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 hours 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 during my 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:

Thursday      2pm – 5pm      W6B 338

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:

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), MPRA Paper No. 6403.

It is the Munich Personal RePEc Archive Paper No. 6403. This textbook can be downloaded free of charge at:

<http://mpra.ub.uni-muenchen.de/6403/>

Two good and useful undergraduate textbooks which follow a similar approach are:

Barro, Robert, *Macroeconomics: A Modern Approach*, Thomson, 2008.

Williamson, Stephen, *Macroeconomics*, Pearson, Third Edition, 2008

The text together with the lectures and additional references, will provide students with a clear indication of the basic content of the unit.

## UNIT WEB PAGE

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

**The web page for this unit can be found at:** <http://learn.mq.edu.au>

The following information will be available on Blackboard:

• Unit Outline	• Announcements
• Lecture materials and questions	• Solutions to assigned questions
• 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 unit you will be able to:

- Understand the micro-foundations of modern macroeconomics
- Use the models discussed to evaluate normative questions in macroeconomics. Normative questions are concerned with welfare; how should government policy be designed to improve the economic well-being of people?
- Discuss the empirical regularities found in 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 in some weeks 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/medium sized 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 development of the micro-foundations of modern macroeconomics. Students are expected to read the relevant chapters and assigned journal articles before each lecture.

### **Independent learning – learning by doing (about 6 hours each teaching week and 10 hours each week during the 2-week mid-semester recess)**

ECON490/861 relies heavily on independent learning where students read the relevant chapter and assigned journal articles, review their lecture notes, prepare answers to the assigned questions and extend themselves by doing additional reading, questions, exercises, problems and sourcing macroeconomic data.

## **LECTURE PROGRAM**

### **Week 1: Output and Employment**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapters 1 and 2.

Crosby, Mark and Glenn Otto (1995) “Real Business Cycle Models: An Introduction” *Australian Economic Review*, Third Quarter, 55-70.

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

Kydland, Finn E. and Edward C. Prescott (1986) “Business Cycles: Real Facts and a Monetary Myth” *Quarterly Review*, Federal Reserve Bank of Minneapolis, Vol. 14, Spring, 3-18.

Prescott, Edward.C. (1986) “Theory Ahead of Business Cycle Measurement” *Quarterly Review*, Federal Reserve Bank of Minneapolis, Vol. 10, Fall, 9-22.

### **Week 2: Uncertainty and Expectations**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 3, pages 63-69.

### **Week 3: Models of Unemployment**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 4.

Lucas, Robert E, (1978) “Unemployment Policy” *American Economic Review* Vol. 68, No. 2, May, Papers and Proceedings, 353-357.

### **Week 4: Consumption and Saving**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 5.

### **Week 5: Econometric Tests of the Permanent Income Hypothesis**

Campbell, John. (1987) “Does Savings Anticipate Declining Labor Income? An Alternative Test of the Permanent Income Hypothesis”, *Econometrica* Vol. 55, 1249-1273.

Fisher, Lance, Glenn Otto and Graham Voss (2010) “The Response of Australian Consumption to Housing Wealth”, *Journal of Macroeconomics* Vol. 32, 284-299.

Hall, Robert (1978) “Stochastic Implications of the Life-Cycle Permanent Income Hypothesis: Theory and Evidence”, *Journal of Political Economy* Vol. 96, 339-357.

Ireland, Peter (1995) “Using the Permanent-Income Hypothesis for Forecasting”, *Economic Quarterly*, Federal Reserve Bank of Richmond, Vol. 8, No 1, 49-63.

Lettau, Martin and Sydney Ludvigson (2004) “Understanding Trend and Cycle in Asset Values: Re-evaluating the Wealth Effect on Consumption”, *American Economic Review* Vol. 94, 276-299.

Otto, Glenn (2003) “Can an Intertemporal Model Explain Australia’s Current Account Deficit”, *Australian Economic Review* Vol. 36, September, 350-359.

### **Week 6: Fiscal Policy, Ricardian Equivalence and Tax Smoothing**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 6.

Barro, Robert (1979) “On the Determination of the Public Debt”, *Journal of Political Economy* Vol. 87, 940-971.

### **Week 7: Econometric Tests of the Tax Smoothing Hypothesis**

#### **MIDSEMESTER TEST**

Kingston, Geoffrey and Allan Layton (1986) “The Tax Smoothing Hypothesis: Some Australian Empirical Results”, *Australian Economic Papers* Vol. 25, Issue 47 (December), 247-251.

Fisher, Lance and Geoffrey Kingston (2003) “Joint Implications of Consumption and Tax Smoothing”, *Journal of Money, Credit and Banking* Vol. 37, No. 6, 1101-1119.

Ghosh, Atish (1995) “Intertemporal Tax-smoothing and the Government Budget Surplus: Canada and the United States”, *Journal of Money, Credit and Banking* Vol. 27, 1033-1045.

Huang, Chao-His and Kenneth Lin (1993) “Deficits, Government Expenditures and Tax Smoothing in the United States:1929-1988”, *Journal of Monetary Economics* Vol. 31, 317-339.

#### **MID-SEMESTER BREAK**

### **Week 8: Capital and Investment**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 7.

### **Week 9: A Simple Model of Money and Inflation**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 8, 172-185.

McCandless Jr., George and Warren Weber, "Some Monetary Facts" (2001) *Quarterly Review*, Federal Reserve Bank of Minneapolis, Vol. 25, No.4, pp.14-24.

### **Week 10: Money, Capital and Banking ASSIGNMENT DUE**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 8, pages 185-194.

### **Week 11: International Monetary Systems**

Andolfatto, David, *Macroeconomic Theory and Policy* (2nd Edition), Chapter 8, pages 194-205.

### **Week 12: Dynamic Inconsistency: The Expectational Phillips Curve Example**

Blanchard, Oliver and Stanley Fischer, *Lectures in Macroeconomics*, MIT Press, 1989, Chapter 11, pages 596-603.

Mankiw, N. Gregory (1988) "Recent Developments in Macroeconomics: A Very Quick Refresher Course", *Journal of Money, Credit and Banking* Vol. 20, No. 3, August, Part 2, 436-449.

### **Week 13: The Basic New Keynesian model**

King, Robert (2000) "New IS-LM Model: Language, Logic and Limits", *Economic Quarterly*, Federal Reserve Bank of Richmond, Vol. 86, No. 3, 45-103.

## SUMMARY OF LECTURE PROGRAM

<b>Week</b>	<b>Lecture</b>
<b>1 (August 5)</b>	Output and Employment
<b>2 (August 12)</b>	Uncertainty and Expectations
<b>3 (August 19)</b>	Models of Unemployment
<b>4 (August 26)</b>	Consumption and Saving
<b>5 (September 2)</b>	Econometric Tests of the Permanent Income Hypothesis
<b>6 (September 9)</b>	Fiscal Policy, Ricardian Equivalence and Tax Smoothing
<b>7 (September 16)</b>	<b>Mid-semester Test</b> Econometric Tests of the Tax Smoothing Hypothesis
<b>Mid-semester Break</b>	
<b>8 (October 7)</b>	Capital and Investment
<b>9 (October 14)</b>	A Simple Model of Money and Inflation
<b>10 (October 21)</b>	<b>Assignment due (submit at beginning of lecture)</b> Money, Capital and Banking
<b>11 (October 28)</b>	International Monetary Systems
<b>12 (November 4)</b>	Dynamic Inconsistency: The Expectational Phillips Curve
<b>13 (November 11)</b>	The Basic New Keynesian Model

**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 hour and 30 minutes(i.e. 1½ hours) (plus 10 minutes reading time)	Provide a short answer to questions of an analytical/mathematical nature. You may need to refer to empirical evidence	Three (3) hours (plus 10 minutes reading time)
Due Date	<b>Week 7 (Thursday September 16)</b>	<b>Week 10 (Thursday, October 21)</b>	
% Weighting	20	20	60
Grading method - marking criteria/ standards - expectations in relation to presentation - referencing requirements	Your midsession will be based on the material covered in the lectures from Weeks 1 to 5 inclusive.	Provide a clear analytical/mathematical framework in which to express your answers. You may need to refer to empirical evidence.	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. The final will be of an analytical nature.
Submission Method		Submit at the beginning of lecture in Week 10. 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 empirical evidence	Knowledge of material presented in lectures and textbook
2	Problem Solving using analytical methods	Discuss issues in an analytical framework with reference to Australian and/or international data	Use analytical and/or mathematical 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>

## **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.