MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

UNIT OUTLINE

2003

ECON311 MACROECONOMIC POLICY

I. COURSE DESCRIPTION:

This course is concerned with macroeconomic policy issues. Macroeconomic theory will be employed to provide the basis for analysis of a number of current issues in policy design and in fiscal, monetary, wages, and exchange rate policies, with particular reference to the Australian economy.

The unit-specific skills that ECON311 seeks to impart are an analytical and critical approach to the various competing theories of macroeconomic policy and the policy regimes that have been pursued in Australia and in other industrial economies. This unit also seeks to develop generic skills: in particular, skills of critical analysis via evaluation and synthesis of lecture material and course reading; as well as literacy, numeracy and information technology skills, communication skills, and problem-solving skills via the essay and the seminar program.

II. LECTURERS:

Weeks 1 - 8          Bill Junor (Lecturer-in-charge)
                      C5C-301 (X9469)
                      email: wjunor@efs.mq.edu.au

Weeks 9 - 13       Marc Lombard
                      C5C-389 (X8501)
                      email: mlombard@efs.mq.edu.au

III. ASSESSMENT:

Final Examination (3 hours)    70%

Essay                                      20%

Seminar participation     10%

A passing grade in this unit requires both a) a pass mark, or better, in the final examination; and, b) satisfactory performance in the remaining two components of the assessment.

IV. LECTURES:

Day: Tuesday 11am – 1pm C5C T2
Evening: Tuesday 6pm – 8pm W6B 345
V. COURSE REQUIREMENTS:

Students should attend all lectures and seminars. Seminars will meet in weeks 3, 5, 7, 9, 11 and 13 only.

Each student is required to submit an essay on one of the two topics listed in section VI. The due date for the essay is Tuesday 7 October. 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 for the submission of essays must be made, in writing, to the tutor-in-charge, Bill Junor (C5C-301), prior to the due date.

VI. ESSAY:

All essays are due no later than 7.30pm on Tuesday, 7 October, 2003. They should be placed in the ECON311 essay box in the EFS Resource and Information Centre (C5C-244). NOTE THAT THE DUE DATE FOR THE ESSAY IS IN THE LAST WEEK OF THE MID-SEMESTER BREAK.

The length of the essay should be 2000 words (+ or – 5%).

Students must keep copies of their essay (including a disk copy).

Essays must be typed.

Correct forms of referencing must be followed.

The essay cover sheet (attached to this study guide) is to be stapled to the front of your essay. All details on the front of the cover sheet should be completed and the cover sheet declaration regarding plagiarism on the back of the cover sheet must be signed.

ESSAYS SUBMITTED WITHOUT THE COVER SHEET DECLARATION BEING SIGNED WILL NOT BE MARKED.

Essays should exhibit evidence of wide and critical reading, and students are expected to seek out relevant references. It is expected that, where the topic requires it, essays will incorporate the latest relevant data. Do not cut and paste data series and graphs from other sources - generate your own! Apart from the statistical data sources noted in Section IX below, data from several sources are also available from the ECONDATA ‘dx’ database on the EFS network. Instructions on how to access ‘dx’, select and modify data, and produce graphs will be distributed in a separate handout.

The ‘ECONLIT’ database in the Library website is a good starting point to search for essay references by keyword, author, etc.

ESSAY TOPICS:
1. INFLATION TARGETING AND ASSET PRICE INFLATION

“Movements in asset prices (such as equity or house prices or the exchange rate) can have significant effects on real economic activity. Yet the consensus view of monetary policy is that central banks should set interest rates in response to forecast inflation, and (possibly) the output gap, but that they should not react directly to movements in asset prices”. CEPR (2000), “Asset Prices and Central Bank Policy”, Bulletin, Centre for Economic Policy Research, London, 1-5 (http://www.cepr.org/pubs/Bulletin/076/asset_prices.htm)

Critically evaluate this consensus view of monetary policy. On balance, do you think that central banks should take asset prices into account in their inflation-targeting framework? Your essay should include, inter alia, time-series of Australian asset price data and consideration of the relationship, if any, between asset price inflation and expected inflation and/or actual inflation.

2. FISCAL POLICY AND ECONOMIC ACTIVITY

Auerbach (2002) asks the question “is there a role for discretionary fiscal policy?”. Critically evaluate the relevant theoretical and empirical evidence relating to the stabilising effects of discretionary fiscal policy and, based on your evaluation, provide an answer to Auerbach’s question.


WARNING: PLAGIARISM IS A SERIOUS ACADEMIC OFFENCE. STUDENTS WHO PLAGIARISE IN WRITING THEIR ESSAYS WILL BE PENALISED AND MAY BE SUBJECT TO DISCIPLINARY ACTION.

VII. SEMINARS:

Seminars will be held in Weeks 3, 5, 7, 9, 11, and 13 ONLY. There are no tutorials in this unit. A separate handout relating to the seminars will be distributed in Week 2.
Each seminar is structured around a single paper in each topic. These papers have been chosen because they a) present provocative and/or controversial points of view, and b) link up with material covered in lectures and/or the required reading.

It is expected that **ALL** students will have read the nominated paper prior to each seminar and attend the seminars prepared to answer all of the set questions on each paper. The 10% of the final mark for seminar participation will be assigned for your performance in the seminars. No marks will be assigned for attendance. However, since you cannot perform if you are not present, you will lose 2% points for each seminar that you fail to attend.

**THE MATERIAL COVERED IN THE SEMINARS IS EXAMINABLE IN THE FINAL EXAMINATION.**

**VIII. ECON311 WEB SITE:**

The unit web site is intended to play an important role in communicating with ECON311 students outside the lecture/seminar setting. You should ensure that you visit the site on a regular basis either from computers located on campus or via the Internet. The basic course information from this Study Guide will be posted on the public pages of the web site. As they become available, other distributed handouts dealing with seminar topics/readings and hints on using the ‘dx’ database, will also be posted on the web site’s public pages.

As well as the public pages there is also a password-protected component of the web site that you login to from the Welcome Page of the ECON311 web page. This part of the site will be used for course announcements, posting of lecture summaries, etc. A bulletin board is also available on which you can post messages relating to the course and queries about material covered in the lectures. These inquiries will be answered by one of the staff teaching in this unit.

To login you require a username and password. Your standard student username and initial password was mailed to you when you enrolled at the beginning of the year. You must change your password within two weeks of the commencement of classes otherwise your account will be disabled. Your new password should be between 6 and 8 characters in length, must contain both letters and numbers, and is case-sensitive. If you have forgotten your password or your account has been disabled, it can be reset by the Library Information Technology Customer Support Desk (ITCSD) or by the Office of Computing Services (OCS) Helpdesk. If you did not receive the letter, contact either the Library ITCSD or the OCS Helpdesk.

When you have finished using the web site you must exit by **CLOSING** Netscape. If you do not close Netscape, other people can continue to use your account, which means that they can access your mail, bulletins and other password-protected material.

**IX. REFERENCE BOOKS:**
There is no textbook for this course.

GENERAL REFERENCES:


Students are required to be familiar with a number of journal articles and other readings. A reading list for the course is set out in Section XI. Guidance to other reading will be provided in lectures.
Up-to-date commentaries and data on the Australian economy can be found in the following:


Australian Bureau of Statistics, *Australian Economic Indicators*, ABS Catalogue No. 1350.0, published monthly; and,


Data relating to Australia and other countries are also available on the Internet. Useful sites include the following:

Penn World Tables [http://pwt.econ.upenn.edu/](http://pwt.econ.upenn.edu/)

Other useful sites include:

- WebEc (World Wide Web Resources in Economics) [http://www.helsinki.fi/WebEc/](http://www.helsinki.fi/WebEc/)
- Jerome Levy Economics Institute [http://www.levy.org](http://www.levy.org)
- Inomics [contains economics-only search engine] [http://www.inomics.com](http://www.inomics.com)
- Nouriel Roubini [http://www.stern.nyu.edu/~nroubini/Asia/AsiaHomepage.html](http://www.stern.nyu.edu/~nroubini/Asia/AsiaHomepage.html)
- Paul Krugman [http://www.wws.princeton.edu/~pkrugman/](http://www.wws.princeton.edu/~pkrugman/)
- Brad DeLong [http://econ161.berkeley.edu/](http://econ161.berkeley.edu/)  

X. **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.
## XI. COURSE CALENDAR

<table>
<thead>
<tr>
<th>Week No. Commencing</th>
<th>LECTURE TOPIC</th>
<th>SEMINAR TOPIC/READING</th>
</tr>
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<tbody>
<tr>
<td>1 July 28</td>
<td>Unemployment and Inflation I</td>
<td></td>
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<tr>
<td>2 August 4</td>
<td>Unemployment and Inflation II</td>
<td></td>
</tr>
<tr>
<td>4 August 18</td>
<td>The Design of Macroeconomic Policy II</td>
<td></td>
</tr>
<tr>
<td>6 September 1</td>
<td>Monetary Policy II Fiscal Policy I</td>
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<tr>
<td>8 September 15</td>
<td>Policies for Economic Growth</td>
<td></td>
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</tbody>
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**MID-SEMESTER BREAK: SATURDAY 27 SEPTEMBER TO SUNDAY 12 OCTOBER**

**ESSAY DUE TUESDAY 7 OCTOBER 7.30PM**

| 10 October 13       | Wages and Labour Market Policies II |                       |
| 12 October 27       | External Policy II |                       |
XII. RECOMMENDED READING:

A * INDICATES THAT THE REFERENCE IS REQUIRED READING.

INTRODUCTION – THE AUSTRALIAN MACROECONOMY: POLICY PROBLEMS


1. UNEMPLOYMENT AND INFLATION


theories tell us?”, in D.J. Snower and G. de la Dehasa, eds., Unemployment

2. THE DESIGN OF MACROECONOMIC POLICY

Nazionale del Lavoro, 165, June, 147-77.

experience”, Weltwirtschaftliches Archiv, 123, 399-413.

Implications for Economic Policy”, American Economic Review, 79, March, 1-
13.


Versa”, Journal of Economic Perspectives, 11, Spring, 3-19.

of Political Economy, 13, April, 181-200.


White, L.H. (1999), The Theory of Monetary Institutions, Blackwell Publishers,
Oxford, Ch. 10.
3. **MONETARY POLICY**


4. FISCAL POLICY


5. POLICIES FOR ECONOMIC GROWTH


6. WAGES AND LABOUR MARKET POLICIES


7. EXTERNAL POLICY


MACQUARIE UNIVERSITY

Essay Coversheet Declaration

Unit .......................... Essay Topic ........................................

Name ....................... Student number ......................

I certify that

- This assignment is my own work, based on my personal study and/or research
- I have acknowledged all material and sources used in the preparation of this assignment, including any material generated in the course of my employment
- If this assignment was based on collaborative preparatory work, as approved by the teachers of the unit, I have not submitted substantially the same final version of any material as another student
- Neither the assignment, nor substantial parts of it, have been previously submitted for assessment in this or any other institution
- I have not copied in part, or in whole, or otherwise plagiarised the work of other students
- I have read and I understand the criteria used for assessment
- The assignment is within the word and page limits specified in the unit outline
- The use of any material in this assignment does not infringe the intellectual property / copyright of a third party
- I understand that this assignment may undergo electronic detection for plagiarism, and a copy of the assignment may be retained on the database and used to make comparisons with other assignments in future

Signature .................................. Date ..........................

This declaration is a summary of the University policy on plagiarism. For the policy in full, please refer to Student Information in the Handbook of Undergraduate Studies or http://www.student.mq.edu.au/plagiarism/.