MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

UNIT OUTLINE

2007

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, labour market, 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 developed 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; literacy, numeracy and information technology skills; communication skills; and problem-solving skills via the essay and the tutorial program.

II. LECTURERS:

Weeks 1 - 8          Bill Junor (Lecturer-in-charge)
                    E4A-412  (X4766)
                    email:  wjunor@efs.mq.edu.au

Weeks 9 - 13       Marc Lombard
                    E4A-436  (X8501)
                    email:  mlombard@efs.mq.edu.au

III. ASSESSMENT:

Final Examination (3 hours)    60%
Essay                                      20%
Tutorial quizzes    10%
Tutorial 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 three components of the assessment.
IV. LECTURES:

Day: Tuesday 11am – 1pm W5A T1
Evening: Tuesday 6pm – 8pm E5A 131

V. COURSE REQUIREMENTS:

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

Each student is required to submit an essay on the topic listed in Section VI. 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 (wjunor@efs.mq.edu.au), prior to the due date.

VI. ESSAY:

A hard copy of the essay must be submitted no later than 9.00am on Tuesday, 25 September, 2007. Essays should be placed in the ECON311 essay box in ERIC (E4B-106).

In addition, an electronic copy of the essay is to be submitted to the Turnitin website for plagiarism checking. The electronic copy must also be submitted no later than 9.00am on Tuesday, 25 September, 2007. Turnitin conducts exhaustive searches of the internet, journal articles and periodicals, and student papers and essays previously submitted to Turnitin, for unacknowledged quotations in the essay being reviewed. Relatively short strings of words can be detected by Turnitin and will be highlighted in the Originality Report on each essay. If your essay contains plagiarised material, it will be detected and you will be penalised. You can ensure that you are not penalised for plagiarism by properly acknowledging direct quotations from the sources you use and not presenting the work of others as your own work. Instructions on how to submit your essay to Turnitin will be posted on the ECON311 website well before the due date for the essay.

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

Essays must be typed on A4 paper with a minimum font size of 12 and a minimum margin of 25mm on the top, bottom, and both sides of the page. Correct forms of referencing must be followed.

The essay cover sheet (available on the ECON311 website) is to be stapled to the front of the hard copy of your essay. All details on the front of the cover sheet should be completed and the declaration regarding plagiarism on the cover sheet must be signed.
The essay cover sheet must also be the first page of the electronic copy submitted to Turnitin.

ESSAYS SUBMITTED WITHOUT THE PLAGIARISM DECLARATION BEING SIGNED AND/OR WITHOUT THE ESSAY BEING SUBMITTED TO TURNITIN WILL NOT BE MARKED.

Essays should exhibit evidence of wide and critical reading, and students are expected to seek out relevant references. The ‘ECONLIT’ database in the Library website is a good starting point to search for essay references by keyword, author, etc. It is expected that, where relevant, essays will incorporate the latest available 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 XI 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.

ESSAY TOPIC: CENTRAL BANK TRANSPARENCY

In his discussion of the evolution of inflation targeting, Kuttner (2004, p.18) notes that while some inflation-targeting central banks continue to publish short-term, often qualitative, forecasts for a limited set of variables “…the general trend is towards reporting explicit forecasts [of inflation, GDP growth, etc.] over increasingly long horizons.”

I) Outline and evaluate the advantages and disadvantages of inflation-targeting central banks reporting explicit forecasts for policy variables.

II) Compare the approach to reporting forecasts used by the Reserve Bank of Australia and by either the Reserve Bank of New Zealand or the Norges Bank (the central bank of Norway). For the explicit forecast reporting central bank that you have selected (ie. either the RBNZ or the Norges Bank) choose a forecasting period that has now ended and for which the actual outcomes are available and i) set out the forecast values of the policy variables at the beginning of the period; ii) discuss the monetary policy implications of these forecasts; and iii) evaluate the success of the monetary policy by reference to the actual values of the policy variables at the end of the period. Repeat this analysis for the Reserve Bank of Australia over the same time period. Does your analysis suggest that inflation-targeting central banks that report explicit forecasts for policy variables generate better policy outcomes? In the light of your evaluation of explicit forecasts in the first part of the topic and your analysis of the performance of the two central banks you considered in the second part of the essay, do you think that the Reserve Bank of Australia should begin reporting explicit forecasts? Does your analysis suggest that inflation-targeting central banks should communicate a policy path as discussed in Kahn (2007)? [Note: this essay topic has two parts. You should devote about half of your essay to each part. The essay marking scale will be based on a 50% weight for each part].
Starting references:


Useful website:


VII. 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 policies on plagiarism. These can be found on the web at http://www.student.mq.edu.au/plagiarism/ or in the Handbook of Undergraduate Studies 2006 (pp.46-7).

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.
VIII. TUTORIALS:

Tutorials will be held in Weeks 3, 5, 7, 9, 11, and 13 ONLY.

Tutorials are organised as follows:

i) At the beginning of each tutorial a set of true/false questions will be distributed. These questions will be based on the required (starred) reading and lecture material for each topic. The answer sheets will be completed and handed back to the tutor. Each tutorial quiz is worth 2%.

ii) The remainder of each tutorial will consist of a question and answer session based on the true/false questions. Each student will be asked at least one question during this part of the tutorial. Participation in each tutorial is worth 2%.

iii) The final mark out of 20% for the tutorial quizzes and participation will be determined by omitting the lowest mark obtained in the six tutorials.

The 10% of the final mark for tutorial participation will be assigned for your performance in the tutorials. No marks will be assigned for attendance. However, because you cannot complete the tutorial quiz or perform if you are not present, you will lose 4% points for each tutorial that you fail to attend.

THE MATERIAL COVERED IN THE TUTORIALS IS EXAMINABLE IN THE FINAL EXAMINATION.

IX. 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 Unit Outline will be posted on the public pages of the web site, as will other distributed handouts as they become available.

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 **CLOSE** 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.

**X. 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/detailedguidelines.doc
XI. 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 XII. 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:

Reserve Bank of Australia, Bulletin, published monthly;

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:

- **International Centre for Economic Growth**  [http://www.iceg.org/](http://www.iceg.org/)
- **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/)

### XII. 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.
## XIII. COURSE CALENDAR

<table>
<thead>
<tr>
<th>WEEK NO. Commencing</th>
<th>LECTURE TOPIC</th>
<th>TUTORIAL TOPIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 July 30</td>
<td>Unemployment and Inflation I</td>
<td></td>
</tr>
<tr>
<td>2 August 6</td>
<td>Unemployment and Inflation II</td>
<td></td>
</tr>
<tr>
<td>3 August 13</td>
<td>The Design of Macroeconomic Policy I</td>
<td>1: Unemployment and Inflation</td>
</tr>
<tr>
<td>4 August 20</td>
<td>The Design of Macroeconomic Policy II</td>
<td></td>
</tr>
<tr>
<td>5 August 27</td>
<td>Monetary Policy I</td>
<td>2: Policy Design</td>
</tr>
<tr>
<td>6 September 3</td>
<td>Monetary Policy II</td>
<td></td>
</tr>
<tr>
<td>7 September 10</td>
<td>Fiscal Policy I</td>
<td>3: Monetary Policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MID-SEMESTER BREAK: SATURDAY 15 SEPTEMBER TO MONDAY 1 OCTOBER</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 October 1</td>
<td>Fiscal Policy II</td>
<td></td>
</tr>
<tr>
<td>9 October 8</td>
<td>Wages and Labour Market Policies I</td>
<td>4: Fiscal Policy</td>
</tr>
<tr>
<td>10 October 15</td>
<td>Wages and Labour Market Policies II</td>
<td></td>
</tr>
<tr>
<td>11 October 22</td>
<td>External Policy I</td>
<td>5: Wages and Labour Market Policies</td>
</tr>
<tr>
<td>12 October 29</td>
<td>External Policy II</td>
<td></td>
</tr>
<tr>
<td>13 November 5</td>
<td>External Policy III</td>
<td>6: External Policy</td>
</tr>
</tbody>
</table>
XIV. RECOMMENDED READING:

A * INDICATES THAT THE REFERENCE IS REQUIRED READING.

INTRODUCTION – MACROECONOMIC POLICY PROBLEMS AND ISSUES


1. UNEMPLOYMENT AND INFLATION


2. THE DESIGN OF MACROECONOMIC POLICY


3. MONETARY POLICY


**4. FISCAL POLICY**


5. WAGES AND LABOUR MARKET POLICIES


6. EXTERNAL POLICY


