



MACQUARIE UNIVERSITY
Division of Economic and Financial Studies

UNIT OUTLINE

ECON823 - MACROECONOMICS

August 2007

Michael McLennan
Unit Convenor

ECON823 - MACROECONOMICS

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

UNIT DESCRIPTION

This unit is intended for postgraduate students with a non-macroeconomics background. It is a core unit of both the Postgraduate Diploma in Applied Economics and the Postgraduate Certificate in Applied Economics. It is also a qualifying unit for entry into the Master of Economics and Master of Commerce (Economics) program. Whilst the unit requires no previous knowledge, it is an intensive, accelerated course, which aims to bring the students to an intermediate level of macroeconomics.

Credit points: 4

LEARNING OUTCOMES:

The unit-specific skills that ECON823 seeks to impart are an analytical and critical approach to the theory of income determination in closed and open economies, to the conduct of macroeconomic policy, and to the various competing theories of inflation and unemployment. 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 tutorial exercises program.

LECTURER

Michael McLennan, ECON823 Convenor
Room E4A-453,
Telephone: 9850 8505, Email: mmclenna@efs.mq.edu.au

Students are welcome to contact me to book a time for consultation. I will work on clarifying regular consultation hours as the semester gets going and I have a clearer sense of when I will be at the university.

LECTURES/TUTORIALS

There will be one three-hour session each week, on **Thursdays, 5-8 pm**, in Room X5B-039.

ASSESSMENT

The assessment will consist of:

- A mid-semester test, worth 25%;
- An attendance and participation mark of 15%. This will be assessed via submission of five selected tutorials throughout the semester;
- A final examination (2 hours) covering the whole course, worth 60%

IMPORTANT NOTICE

It is highly recommended that:

1. Students **attend all sessions**, as test and examination include material discussed in the lectures
2. Students be conversant, each week, with the concepts and issues presented during lecture time, and are acquainted with the recommended reading material.

FINAL EXAMINATION

It is the policy of the Economics Department that **students need to pass the final examination in order to successfully complete a unit**

It is also Macquarie University policy not to set early examinations for individuals or groups of students – all students will be examined simultaneously. All students are expected to ensure that they are available until the end of the teaching semester; that is, the final day of the official examination period.

Potentially we shall run the exam before the formal examination period, but if I feel the time between our last class and the exam will be insufficient as a result, I will run the exam during the official examination period.

RECOMMENDED TEXT AND REFERENCES

The course will be assessed based on lecture notes and tutorial questions from throughout the course. **In that sense, the lecture notes are the prescribed text. In particular weeks, I will also give out particular chapters from some of the below books to provide additional explanations.**

Should you require additional reading, much of the theoretical material in this course is explored in the following. I've requested they be placed in the Reserve collection for the duration of the course, though some times other copies and earlier editions are available for borrowing.

Introductory Texts (first year undergraduate)

McTaggart, Findlay and Parkin, **Macroeconomics**, 5th edition, Pearson.
O'Donnell, (2006), **Macroeconomic Principles**, 3rd edition, Mind to Mind.
Sloman and Norris, (2002), **Macroeconomics**, 2nd edition, Prentice Hall

The O'Donnell, Sloman and McTaggart books are more introductory in presentation and content, but may help students who are struggling on some foundational topics.

Intermediate Texts (second year undergraduate)

Bernanke, Olekahns and Frank, (2005), **Principles of Macroeconomics**, McGraw Hill.

Blanchard, O., J.Sheen (2007), **Macroeconomics**, 2nd edition, Pearson Prentice Hall
Dornbusch, Bodman, Crosby, Fischer, Startz (2006), **Macroeconomics**, 2nd edition, McGraw Hill. (2002 edition is equally fine.)

Dornbusch, Fischer, Kearney, (1995), **Macroeconomics: Australian Edition**, McGraw-Hill. (While the data is outdated, the economics of this one are fine – in fact it's possibly the best intermediate exposition among the above.)

The Dornbusch (both) and Blanchard and Sheen books are the texts we'll be drawing on most significantly as we push out into deeper waters. Bernanke is also an intermediate treatment, though lacks a couple of important topics.

Statistical data:

- Australian Bureau of Statistics, *Australian Economic Indicators*, monthly
- Australian Parliamentary Library, *Monthly Economic and Social Indicators*
- Reserve Bank of Australia, *Bulletin*, monthly
- Commonwealth of Australia, *Budget Paper No 1*, AGPS, annually
- OECD, *Main Economic Indicators*, quarterly
- OECD, *Economic Outlook*, semi-annually

Useful websites

- Australian Bureau of Statistics: www.abs.gov.au
- Australian Treasury: www.treasury.gov.au
- Reserve Bank of Australia: www.rba.gov.au
- OECD: www.oecd.org
- World Bank: www.worldbank.org
- The Economist: www.economist.com

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 which 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. 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/Guidelines2003.doc> or
<http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>

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 procedures on plagiarism. These can be found on the web at:

<http://www.student.mq.edu.au/plagiarism/>. Penalties may include a deduction of marks, failure in a unit, and/or referral to the University Discipline Committee.

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>

ERIC (EFS resource and Information Centre) – E4B-106.

Direct to Peer Advisers: 9850 9958, eric@efs.mq.edu.au

ENQUIRIES

Any enquiries about the unit should be directed to **Michael McLennan**, lecturer-in-charge, room E4A-453, tel. 9850 8505, email: mmclenna@efs.mq.edu.au

TIMETABLE

<u>CLASS</u>	<u>DATE</u>	<u>EVENTS</u>
1	02/08	
2	09/08	
3	16/08	Submit tutorial (3%)
4	23/08	
5	30/08	Submit tutorial (3%)
6	06/09	
7	13/09	Midsemester (25%)
	20/09	Semester Break (3%)
	27/09	Semester Break
8	04/10	Submit tutorial (3%)
9	11/10	
10	18/10	Submit tutorial (3%)
11	25/10	
12	01/11	Submit tutorial (3%)
13	08/11	Final Lecture

LECTURE PROGRAM and READING GUIDE

Note: For each week, a number of chapters are recommended for reading. This does not mean all those chapters must be read, but that there are multiple resources for students to access in the library should any one book be unavailable. I would put emphasis on reading one of the texts I have classed as *Intermediate* above. The introductory texts are there in some topics to help serve as a simpler explanation, but sometimes are lacking in key details.

Another Note: You will only be assessed on lecture/tutorial material. If readings contain material that has not been covered in lectures or tutorials, then be at peace – it will not be required of you to know it under exam conditions.

INTRODUCTION

Topic 1 - Introduction to Macroeconomics

- Concepts and Themes
- Major Macroeconomic Objectives
- National Income Accounting
- Circular Flow Representation

Readings:

- O'Donnell, ch 8-13
- Sloman & Norris, ch 12.1-12.3, 13.1-13.3
- Blanchard and Sheen, ch2
- Dornbusch et al (1995) ch 2
- Dornbusch et al (2006) ch 2
- Bernanke, ch 3.1-3.3

SHORT-RUN MACROECONOMICS – CLOSED ECONOMY

Topic 2 –The Goods Market - Income and Expenditure Analysis

- Consumption and Saving
- Investment (and inventories)
- Expenditure Multiplier
- Inflationary and Deflationary Gaps
- Equilibrium / Disequilibrium
- Three Sector Model: Government Sector
- Leakages/Injections Presentation
- Comparative Statics

Readings:

- O'Donnell, ch 14-20, 22-24
- Sloman & Norris, ch15
- Blanchard and Sheen, ch 3
- Dornbusch et al (1995) ch 3
- Dornbusch et al (2006) ch 7.1-7.5
- Bernanke, ch 7

Topic 3 – The Money Market – Determination of the Interest Rate

The idea of ‘the interest rate’
Money supply and its measurement
Money demand
Liquidity Preference
Interest rate determination – Equilibrium / Disequilibrium
Comparative Statics

Readings:

O’Donnell, ch 28-32
Sloman & Norris, ch 16
Blanchard and Sheen, ch 4
Dornbusch et al (1995) ch 8-9
Dornbusch et al (2006) ch 14.3, 8.2
Bernanke, ch 9.1-9.3

Topic 4 – The IS-LM Model I – Goods and money market equilibrium

Investment (again), the MEC and the interest rate
IS curve – diagram and algebraic
Goods market equilibrium and disequilibrium
Money demand (again) and income
LM curve – diagram and algebraic
Money market equilibrium and disequilibrium
IS-LM equilibrium and disequilibrium
IS-LM comparative statics

Readings:

Blanchard and Sheen, ch5
Dornbusch et al (1995) ch 10
Dornbusch et al (2006) ch 8.1-8.3, 8.5

Topic 5 – The IS-LM Model II - Policy in a closed economy

Fiscal policy
‘Crowding out’
Fiscal policy multiplier
Monetary policy
Transmission mechanism
Classical case vs liquidity trap
Monetary policy multiplier

Readings:

Blanchard and Sheen, ch5
Dornbusch et al (1995) ch 11
Dornbusch et al (2006) ch 9.1-9.2

Topic 5A – The Labour Market

Nominal vs Real Wages
Labour Demand
Labour Supply
Wage determination

Readings:

O’Donnell, ch 58
Blanchard and Sheen, ch 6

Dornbusch et al (1995) ch 4.2-4.4
Bernanke, ch 5.1

Topic 6 - Aggregate Supply and Demand (AS & AD)

Deriving AD curve
Keynesian AS curves
Classical AS curves
AS & AD shocks
Policy impact in an AS-AD model
Neutrality of Money

Readings:

Blanchard and Sheen, ch 7.
Dornbusch et al (1995) ch 12
Dornbusch et al (2006) ch 5, 6.1
Bernanke, ch 10

Topic 7 - Unemployment and Inflation

Unemployment Measurement - Definitions
Okun's Law
Causes of Unemployment / Categories
Classical Unemployment vs Keynesian Unemployment
The Natural Rate of Unemployment
Hysteresis
Measuring Inflation
Effects and Causes of Inflation – supply and demand driven inflation
Philips Curve
Expectations-Augmented Philips Curve
Adaptive and Rational Expectations

Readings:

O'Donnell, ch53-59
Blanchard and Sheen, ch 6, 8-9.
Dornbusch et al (1995) ch 16-17
Dornbusch et al (2006) ch 6.2-6.9, 18.1-18.4
Bernanke, ch 3.4, 5.3, 10.

Topic 8 – More complex issues in Macroeconomic Policy

The Budget: Structural and Cyclical Components
Financing the Budget Deficit
Impact of Expenditure and Taxation
Political Business Cycles
Ricardian Equivalence (Optional)
Implementation of monetary policy – interest rate vs monetary targeting
Central Bank Independence: Rules vs Discretion

Readings:

O'Donnell, ch 46-52
Blanchard and Sheen, ch 24-26
Dornbusch et al (2006) chs 15 and 18 (sections to be clarified)
Bernanke, ch 8.4, 9.4-9.7, 7.12

Topic 9 – Different schools of macroeconomic thought

Keynes
The Keynesian / Neo-classical Synthesis
Monetarism
New Classical Economics
New Keynesian Economics
Optional: Other perspectives

Readings:

O'Donnell, ch 58, 49
Sloman and Norris, ch14
Dornbusch et al (1995) ch 1.1-1.2
Dornbusch et al (2006) ch 1.3
Bernanke, ch 17.2

Topic 10 – Behavioural Foundations (OPTIONAL)

Motivation behind Microfoundations
Consumption Theory: Life Cycle Theory
Consumption Theory: Permanent Income Theory
Investment Theory: More than just the MEC

Readings:

Blanchard and Sheen, ch16
Dornbusch et al (1995) ch 5.1-5.2, 6.1-6.4
Dornbusch et al (2006) ch 12.1, 13.1

SHORT-RUN MACROECONOMICS – OPEN ECONOMY

Topic 11 – External Sector

Introduction to External Sector
Open economy Income Expenditure analysis
The Foreign Exchange Market
Choice of Exchange Rate Regimes
Balance of Payments
Policy Responses to Current Account Imbalances
Do Current Account Deficits Matter?
External Debt
Macroeconomic Policy in Open Economies (IS-LM-BP)

Readings:

O'Donnell, ch 36-40.
Sloman & Norris, ch20
Blanchard and Sheen, ch 18-21
Dornbusch et al (1995) ch 7.3-7.7, 13
Dornbusch et al (2006) ch 10.1-10.4
Bernanke, ch 15-16

LONG-RUN MACROECONOMICS

Topic 12 –Growth Theory (OPTIONAL)

Sources of economic growth

Neoclassical Growth Theory

Convergence

Endogenous Growth Theory

Readings:

Blanchard and Sheen, ch 10-12

Dornbusch et al (1995) ch 18

Dornbusch et al (2006) ch 3-4

Bernanke, ch 12-14

The numbering of topics above is not related to the number of lecture weeks. Some topics are shorter/longer than others. We may not complete the program, and may add/remove some of the above along the way.