MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

UNIT OUTLINE

2004

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 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; 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-375  (Tuesday 2-3, 5-6 ONLY)
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  E5A 131
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 5 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 lecturer-in-charge, prior to the due date.

VI. ESSAY:

All essays are due no later than 7.30pm on Tuesday, 5 October, 2004. They should be placed in the ECON311 essay box in the EFS Resource and Information Centre (C5C-244).

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

“Over the past 15 years, explicit inflation targeting (IT) has been adopted by an increasing number of central banks, and a substantial body of literature has emphasised the advantages of this approach as a framework for monetary policy. Nevertheless, empirical analysis has yielded little evidence of any macroeconomic effects of IT”. [Levin, A.T., Natalucci, F.M. and Piger, J.M. (2004), “The Macroeconomic Effects of Inflation Targeting”, Federal Reserve Bank of St Louis Review, 86, July-August, p.51]

What are the advantages and disadvantages of explicit inflation targeting as a framework for monetary policy? Survey, and evaluate, the empirical evidence relating to the macroeconomic effects of IT. On balance, do you think that there is a compelling case for the adoption of IT by central banks?

2. FISCAL POLICY

“In several respects, the advantages of distancing the stance of fiscal policy from day-to-day government are analogous to the advantages of distancing monetary policy from governments. Assuming that, in principle, discretionary changes in the stance of policy can beneficially dampen the volatility of the business cycle, removing control from day-to-day government would enable policy to be adjusted to emerging economic circumstances more closely, more quickly, and more credibly”. (emphasis in original) [Gruen, N. (1997), “Making Fiscal Policy Flexibly Independent of Government”, Agenda, 4, p.301]

Outline the key elements of Gruen’s proposal and evaluate his claim that an independent fiscal authority would be able to adjust fiscal policy more closely, more quickly and more credibly. Include in your essay a discussion of the advantages and disadvantages of Gruen’s proposal.
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/reads 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 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:


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)
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>
</thead>
<tbody>
<tr>
<td>1 August 2</td>
<td>Unemployment and Inflation I</td>
<td></td>
</tr>
<tr>
<td>2 August 9</td>
<td>Unemployment and Inflation II</td>
<td></td>
</tr>
<tr>
<td>4 August 23</td>
<td>The Design of Macroeconomic Policy II</td>
<td></td>
</tr>
<tr>
<td>6 September 6</td>
<td>Monetary Policy II Fiscal Policy I</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>MID-SEMESTER BREAK: SATURDAY 18 SEPTEMBER TO MONDAY 4 OCTOBER</strong></td>
</tr>
<tr>
<td>8 October 4</td>
<td>Policies for Economic Growth</td>
<td></td>
</tr>
<tr>
<td>10 October 18</td>
<td>Wages and Labour Market Policies II</td>
<td></td>
</tr>
<tr>
<td>12 November 1</td>
<td>External Policy II</td>
<td></td>
</tr>
</tbody>
</table>
XII. RECOMMENDED READING:

A * INDICATES THAT THE REFERENCE IS REQUIRED READING.

INTRODUCTION – THE AUSTRALIAN MACROECONOMY: POLICY PROBLEMS


1. UNEMPLOYMENT AND INFLATION


2. THE DESIGN OF MACROECONOMIC POLICY


3. MONETARY POLICY


4. FISCAL POLICY


5. POLICIES FOR ECONOMIC GROWTH


6. WAGES AND LABOUR MARKET POLICIES


### 7. EXTERNAL POLICY


UNIT: ECON311 MACROECONOMIC POLICY

DUE DATE: TUESDAY 5 OCTOBER 2004, 7.30 PM.

SUBMIT TO: ECON311 ESSAY BOX IN THE EFS RESOURCE AND
INFORMATION CENTRE (C5C-244)

LENGTH: ..................WORDS

CONTRIBUTION TO FINAL ASSESSMENT: 20%

NAME: ___________________________ STUDENT NO.: ___________
      (Surname)                        (Initials)

SEMINAR: DAY__________ TIME_______ LOCATION____________

TITLE: _________________________________________________________

<table>
<thead>
<tr>
<th>ASSESSMENT</th>
<th>Excellent</th>
<th>Very Good</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synopsis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Presentation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acknowledgements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>References</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

MARKS DEDUCTED (Maximum of 5) ______(Lateness; No Synopsis; No Bibliography; No Acknowledgements; Incorrect Referencing; Illegibility)

FINAL GRADE: .................

MARKER'S COMMENTS:
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/.