ECON 201-03-06 Macroeconomic Principles

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ECON201, Macroeconomic Principles  
Fall, 2017  
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Office Hours: T (9:30-11:30, 1:30-3:00), W (3:00-4:30), and by appointment

Course materials:  
Principles of Macroeconomics (eleventh edition, 2014); Karl Case, Ray Fair, and Sharon Oster  
Practice exams and other materials on Canvas

Course description and objectives:

This course is the second of a two course sequence in introductory economics. The first course, microeconomic principles, is about the behavior and operation of individuals and individual markets, i.e. the "economics of the small". This course, macroeconomic principles, is about the behavior of large (or aggregate) markets and what the government can and can't do to affect their operation. Whereas microeconomics examines how market prices and quantities get determined in the markets for specific goods (e.g. CD's), macroeconomics examines how the economy-wide average price level and the economy-wide aggregate output level get determined as well as what, if any, relationship exists between the two. In microeconomics, we examine how well markets work in achieving efficiency in production for specific goods. In macroeconomics, we examine the forces that influence how well the overall economy works. Specifically, we will look at the causes of inflation, cyclical swings in total production, and economic growth. We will also examine the interaction that exists among the markets for goods and services, resources, and money in both the short and long run, and the government's role in assisting these markets in providing a stable economic environment.

You will learn why economists disagree as to what is the appropriate role of government in stabilizing or assisting the operation of a market economy, and why the theory of John Maynard Keynes is considered both the salvation and the curse of modern macroeconomic theory. By the end of this course, you will understand how monetary and fiscal policy decisions are made, and what impact they have on the health of the overall economy. You will understand why Janet Yellen is such an important person these days, and why zero unemployment and zero inflation are neither desirable nor compatible with each other. In short, you will gain insight into the issues related to the smooth operation of our economy and in doing so, will become better citizens in shaping and understanding public discourse about the economy. Moreover regardless of your major or interests, you will find that economics, as a highly analytical discipline, is likely to significantly contribute toward sharpening your reasoning skills.

Finally, this course satisfies the University Core social science requirement as well as being a part of the WCB core requirements. Please examine the “Learning Goals” document on the course Canvas page to see what the learning objectives are for this course as part of the University core, the WCB core, and the Economics Department’s major in economics.

Course work and grade determination:

Your grade in this course will be based upon your performance on four exams, including three midterm exams and a comprehensive final exam. Each midterm exam counts 20% each towards your final grade, and the comprehensive final exam counts the remaining 40%. These exams will consist of essays and problems, and will be scored on a 100 point basis. If your weighted average on the four exams is 90 or above, you will receive an A. Averages of 80 to 89, 70 to 79, and 60 to 69, will earn grades of B, C, and D respectively. Anything below 60 is a failing grade. There are no +/- grades in this course. There will also be no scaling of exam grades so your course grade will be based strictly on how well you do. However if you do significantly better on the final exam than the midterm exams and your course average is at the high end of a grade score range, you may receive the higher grade depending upon the quality of your comprehensive final exam.
While attendance in this course is not required, it is highly recommended. The text and lecture material is often difficult. Therefore the class discussion should not only be a valuable supplement to the text, but will also be the best indicator of material which you will be responsible for on the exams. If you do miss class, please come and see me or get the class notes from one of your classmates. I am also more than happy to spend time with you whenever you are having difficulty with class material. One good way for you to determine how well you understand the class materials is to try the practice exam questions on the course’s Canvas page. While the answers are not provided, I will be happy to “grade” your answers if you wish me to. Finally if you miss class when an exam is given, you will not be allowed to make up the exam without a valid medical and documented excuse or prior permission from me.

**Tentative course schedule:** This is tentative and may be adjusted if conditions warrant.

**Section 1:** This first section of the course contains introductory material on the key issues associated with macroeconomics, as well as a description of both the measurement and interpretation of the macroeconomic variables used to track the health of the US economy.

- **Class dates:** August 21, 23, 25, 28, 30; September 1
- **Reading:** Chapters 5-7 (chapters 1-4 contain material covered in ECON200, and therefore needn’t be covered in class for this course; review the material in chapter 3 on supply, demand, and market equilibrium if you have forgotten how markets work)

**Section 2:** This section introduces the basic Keynesian model of output determination, and the role of aggregate demand (called aggregate expenditure at this point in the course) in determining cyclical movements in aggregate output. A key concept here is the so-called Keynesian multiplier effect which magnifies the effects of a “demand shock” on aggregate output.

- **Class dates:** September 6, 8, 11, 13 *(no class on September 4: Labor Day)*
- **Reading:** Chapter 8 (including the Appendix)

**Midterm Exam 1:**

- **Class dates:** September 15, 18
- **Text covered:** Chapters 5-8

**Section 3:** This section begins a discussion of macroeconomic policy in the Keynesian model. We first examine how fiscal policy (government spending and tax policy) work to influence demand and therefore (potentially) output and employment. The second part of this section is about money and ultimately how monetary policy works. It starts with a description of money and its role in an exchange economy. We also examine how the banking system is able to “create” money through its ability to accept deposits and make loans in a fractional reserve system.

- **Class dates:** September 20, 22, 25, 27, 29
- **Reading:** Chapters 9, 10 (pp. 189-199)

**Section 4:** In this section we describe how our central bank, the Federal Reserve, both creates and controls the money supply in the US. We also examine how money (and monetary policy) affects interest rates and by extension, aggregate expenditure.

- **Class dates:** October 2, 4, 9, 11 *(no class on October 6: fall holiday)*
- **Reading:** Chapters 10 (pp. 199-208), 11

**Midterm Exam 2:**

- **Class dates:** October 13, 16
- **Text covered:** Chapters 9-11

**Section 5:** Sections 5 and 6 contain the most difficult material in the entire course, and we will need to use the text very carefully here. Please note the reading sequence here because we jump around a bit, and we also omit some text material. We start with a part of chapter 14 dealing with the labor market, the basis for understanding where the aggregate supply curve comes from. Following this, we examine the construction of the aggregate demand curve using parts of chapter 12.

- **Class dates:** October 18, 20, 23, 25, 27
- **Reading:** Chapters 14 (pp. 263-269), 12 (pp. 229-234, 239-243)
Section 6: Once we have the basis for both aggregate supply and aggregate demand, we can use these curves to examine both what happens to prices, output, and unemployment from shocks to the economy (like the one that triggered the Great Recession of 2009) and how monetary and fiscal policy might impact these variables in both the short run and the long run. We also examine the so-called Phillips Curve to see whether a trade-off exists between the rates of inflation and unemployment. We conclude this section with a brief examination of both the causes and monetary policies associated with the recent recession, and the federal budget deficit issue.

Class dates: October 30; November 1, 3, 6, 8
Reading: Chapters 13 (pp. 247-250, 253-258), 14 (pp. 270-277), 15

Midterm Exam 3:
Class dates: November 10, 13
Text covered: Chapters 12-15

Section 7: Economic growth is the subject of this section of the course. Specifically we will examine the factors that influence economic growth rates and by extension, the ways that government policy might influence economic growth (so-called “supply-side” policy).

Class date: November 15
Reading: Chapter 17 (we will skip chapter 16 of the text)

Section 8: This section contains material on alternative views in macroeconomics. It is, in some ways, the most critical chapter in the text because one’s views of what government can (or should) be doing to help “run” the economy depends upon which point of view one takes. Keynesian economics, the view guiding much of the text material, is controversial. Many economists disagree with much of the Keynesian model which, in turn, means that economists disagree as to what monetary (or fiscal) policy is most appropriate.

Class dates: November 17, 20
Reading: Chapter 18

Section 9: In this final section of the course, we examine how global forces complicate both the functioning of the US economy and the impact of government policy on the economy. Key ideas here include the principle of comparative advantage and the gains from trade (as well as ways to limit trade), the balance of payments, the determination of exchange rates, and some thoughts on “open economy” macroeconomic policy.

Class dates: November 27, 29; December 1, 4, 6 (no classes on November 22, 24: Thanksgiving break)
Reading: Chapters 19-20

Review Day: December 8

Comprehensive Final Exam:
Class date: 11:00 class…..Wednesday, December 13 (10:00-11:50)
2:00 class…..Wednesday, December 13 (12:00-1:50)

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“We educate students of business, enabling them to improve organizations and society, consistent with the Jesuit tradition.”