2012

ECON 201-06 Macroeconomic Principles

Steven Cobb
COBB@XAVIER.EDU

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Recommended Citation
Cobb, Steven, "ECON 201-06 Macroeconomic Principles" (2012). Economics Syllabi Fall 2012. 8.
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ECON201, Macroeconomic Principles  
Fall, 2012  
Prof. Steven Cobb, SMH323  
745-3053 (office), 745-3692 (fax), cobb@xavier.edu (e-mail)  
Office Hours: MWF (9:30-11:30), and by appointment

Course materials:

*Principles of Macroeconomics* (tenth edition, 2012); Karl Case, Ray Fair, and Sharon Oster  
Practice exams on electronic reserve in the library (password: macro)

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 the appropriate role of government in this behalf, 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 Ben Bernanke is such an important guy, 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.

Course work and grade determination:

Your grade in this course will be based upon your performance on three exams, including two midterm exams and a comprehensive final exam. The midterm exams will count 30% each towards your final grade, and the comprehensive final exam will count 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 three 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 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 electronic reserve in the library. 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 discussion of both the measures and interpretation of the macroeconomic variables used to track the health of the US economy.
   Class dates: August 21, 23, 28, 30; September 4
   Reading: chapters 5-7 (chapters 1-4 contain material covered in ECON200, and therefore needn’t be covered in class for this course)

Section 2: This section covers 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. Also covered in this section is the impact of fiscal policy (government spending and tax policy) on the macro-economy.
   Class dates: September 6, 11, 13, 18
   Reading: chapters 8-9 (including the Appendix to chapter 8)

First Midterm Exam:
   Class dates: September 20, 25
   Text covered: chapters 5-9

Section 3: This section focuses on the role of money in the US economy. Included in this section is a discussion of the concept of money, the role played by the banking system in the creation of money, some background on the Federal Reserve System as well as the Fed’s role in the money creation and control process, and the functioning of the market for money.
   Class dates: September 27; October 2, 4, 9
   Reading: chapters 10-11

Section 4: In this section we examine how money (and monetary policy) affects interest rates and by extension, aggregate expenditure. We also construct the aggregate demand curve from the Keynesian aggregate expenditure model to show how aggregate demand varies with the average price level in the economy. In addition, we describe the structure of aggregate supply in both the short-run and the long-run, and close with an examination of the link between money and inflation.
   Class dates: October 16, 18, 23 (no class on October 11: fall holiday)
   Reading: chapters 12-13

Second Midterm Exam:
   Class dates: October 25, 30
   Text covered: chapters 10-13

Section 5: This section focuses on the labor market, and its role in determining the shape of the aggregate supply curve. An important element of this section is a discussion of the so-called Phillips curve, a graph that depicts the trade-off between the rates of inflation and unemployment. This trade-off, to the extent it exists (a debatable issue), is critical for macroeconomic policy. We also look at the role of financial markets in the recent recession, and some factors that limit the effectiveness of government policy in dealing with the current problems in the US economy.
   Class dates: November 1, 6, 8
   Reading: chapters 14-15

Section 6: 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 13
   Reading: chapter 17 (we will skip chapter 16 of the text)
Section 7: 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 15, 20
Reading: chapter 18

Section 8: 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 4 (no class on November 22: Thanksgiving break)
Reading: chapters 19-20

Final Review Day: December 6

Comprehensive Final Exam:
Class date: Thursday, December 13 (8:30-10:20)
Text covered: all

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