ECON 201-07H Macroeconomic Principles: Honors

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A. Course materials:
   2. Electronic reserves: practice exams, the “fred” site link, and other links to sites of interest for this course (Password: hmacro)

B. Course description and objectives:

This course is normally 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 individual prices (e.g. the price of wheat) and quantity levels get determined in individual markets, macroeconomics examines how the average price level (e.g. the CPI) and the aggregate output level get determined in the overall market economy. Microeconomics looks at the economic efficiency of the market system, namely how well the market system works in getting the most value from our limited resources. Macroeconomics looks at the efficiency of the overall operation of the economy including the causes and consequences of inflation and unemployment, the significance of the dynamic operation of the financial and labor markets for the effective operation of the economy in both the short and long runs, and the government's role in assisting these markets in providing a stable economic environment.

You will learn why economists disagree as to what constitutes the appropriate role of government with respect to the economy, and why the theories of John Maynard Keynes are 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. Some of you may even become sufficiently intrigued by the subject to go on and major or minor in economics. However regardless of your major or interests, you will find that the fact that economics, as a highly analytical discipline, is likely to significantly contribute toward sharpening your reasoning skills.

C. Course work and grade determination:

You will have three exams, including a comprehensive final, which collectively will determine 85% of your course grade. The midterm exams are each worth 25% of your course grade, while the final exam is worth 35%, and the exam dates are shown on the course outline below. All exams questions are essay or problem-solving in nature, and practice exams are available on the course e-reserve page. If you miss class on a day when there is an exam, you will be allowed to make it up only if you have received prior approval from me or you have a valid medical excuse. Attendance on non-exam days, while not required, is highly recommended because the exam questions are heavily drawn from subject matter discussed in class. This course contains difficult material which tends to build on itself through the semester, so please don't hesitate to see me if you are having trouble with any of the material. My office hours are at the top of the syllabus, and I am generally available by appointment at other times when I am not in class.
You will also write three short papers (2-3 pages each) that require you to research and interpret macroeconomic data. The three papers count for the remaining 15% of your course grade, and will be graded on the basis of how well you present and interpret the data required for each project. If there are problems with either the data you use (and manipulate) or the way you present the results (e.g. a poorly designed graph), you will receive a grade no better than a C. To receive an A, you must not only handle the data issues well, but must also show some initiative in answering the questions posed by the project. This means doing a bit of extra research on why you observe the results you found or thinking creatively (and correctly) about the subject. A solid paper without this extra effort will receive a grade no higher than a B. All papers are due by the end of class on the dates shown below. If a paper is not turned in at that time, there will be a 10 point penalty for each weekday it is late.

Once your scores are determined for each paper and exam, I will convert the weighted average to a letter grade as follows: 90-100=A, 80-89=B, 70-79=C, etc. If your average is "borderline" (e.g. 89.1), you will receive the higher of the two possible grades (an A in this example) so long as your score on the comprehensive final is significantly higher than the scores on the two midterm exams. You will have earned the higher grade because the final exam is ultimately the best indicator of your mastery of the course material.

D. Tentative course outline and reading assignments:

1. The case for and against free trade, and how exchange rates are determined:
   Introduction to the course and review of basic concepts from ECON200 which will be of use in this course including the use of graphs, the production possibilities frontier, and opportunity cost, the principle of comparative advantage and the gains from trade, determining equilibrium price and output using supply and demand curves, and application of supply-demand analysis to the determination of exchange rates.
   Reading: Chapters 1 (including Appendix), 2, 3, 17 (pp. 487-506)
   Class dates: August 21, 23, 28, 30; September 4

2. What all that macroeconomic data mean and why it’s important to measure that stuff:
   Introduction to macroeconomics including macroeconomic concerns and issues, the measurement and interpretation of macroeconomic variables (e.g. nominal and real GDP, the CPI and GDP deflator, the natural and actual unemployment rates), and the basics of national income accounting.
   Reading: Chapters 5, 6, 7 (including Appendix)
   Class dates: September 6, 11, 13, 18
   Project #1 due: September 13

First Midterm Exam:
   September 20, 25

3. The economy works fine on its own if only the government would just stay out of the way:
   Classical macroeconomics (the “long run” operation of the economy) including the assumptions of the “classical model”, the determination of long run output and the factors which influence the growth rate of long run output, the role of spending in influencing output, the loanable funds market and the importance of its operation for achieving long run output levels, the classical view of fiscal policy, and economic growth policies (supply side policies).
   Reading: Chapters 8, 9
   Class dates: September 27; October 2, 4, 9
4. The economy is unstable so that government intervention is warranted, at least in the short run: Keynesian macroeconomics (the “short run” operation of the economy) including the problem of explaining business cycles in the classical framework, the Keynesian critique of the classical model in the context of the Great Depression, the importance of the labor market dynamic for the distinction between short run and long run output analysis, the short run Keynesian model with its emphasis on the variability of aggregate demand as the cause of cyclical swings in the economy, and the calculation and use of the so-called Keynesian expenditure multiplier in the short run output adjustment process.

   Reading: Chapters 10, 11 (including Appendix)
   Class dates: October 16, 18, 23, 25 (no class on October 11; fall holiday)
   Project #2 due: October 23

Second Midterm Exam: October 30; November 1

5. Money is important but to understand why requires us to know what it is, how it is created, and who controls it: Money and the economy including the uses and measures of money, the role of the Federal Reserve and the banking system in the money creation process, the simple deposit multiplier, the structure and operation of the Federal Reserve, the market for money and the determination of interest rates, and the effect of monetary policy in the classical and Keynesian models.

   Reading: Chapters 13, 14 (including Appendix)
   Class dates: November 6, 8, 13

6. Aggregate demand and aggregate supply: Putting everything together including the construction of the aggregate demand curve, the (Keynesian) distinction between aggregate supply in the short run and aggregate supply in the long run, Keynesian business cycles, and the “self-correction” process.

   Reading: Chapter 15
   Class dates: November 15, 20

7. Policies to lower the unemployment rate may carry risks and are complicated by global forces: Macroeconomic policy issues regarding the use (and misuse) of monetary and fiscal policy to influence the macro economy including monetary policy and the Phillips curve vs. natural rate hypothesis debate, and the macroeconomics of the “open economy”.

   Reading: Chapters 12, 16, 17 (pp. 506-518)
   Class dates: November 27, 29; December 4 (no class on November 22; Thanksgiving)

Final Exam Review and Project 3 due: Class date: December 6

Comprehensive Final Exam: Tuesday, December 6 (1:00-2:50)

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