ECON 201-03-08 Macroeconomic Principles

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Macroeconomic Principles (Syllabus)
Xavier University, Spring 2012
ECON 201-03: Mon-Wed-Fri, 10:30 am – 11:20 am, Smith G23
ECON 201-08: Mon-Wed-Fri, 11:30 am – 12:20 pm, Smith G23

Instructor: Dr. Hasan Faruq
Office: Smith 322
Office Hours: Tuesday and Thursday: 12:00-2:00 pm,
Monday and Wednesday: 1:30-2:30 pm and by appointment
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Phone: (513) 745-3054

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

Course Overview:

Macroeconomics looks at the entire economy and focuses on important policy questions such as (i) why some countries are rich and some countries are poor, (ii) why unemployment rates are higher in some years and lower in others, and (iii) why prices rise rapidly in some periods and remain stable in others.

The purpose of this course is to help you conceptualize important macroeconomic concepts such as inflation and unemployment, understand the role of important policy instruments such as fiscal and monetary policies, and develop an appreciation of fundamental macroeconomic institutions. By the end of the semester, you will hopefully have acquired some useful tools that you can use to critically analyze economic and political issues that are prevalent in the news today.

Textbook and Pre-requisites:

The required textbook for this course is N. Gregory Mankiw, *Brief Principles of Macroeconomics*, South-Western Publisher, 6th edition (other editions will be acceptable as well). Supplementary articles from The Economist will be distributed in class.

The pre-requisite for this course is ECON 200: Microeconomic Principles with a minimum grade of D.

Assignments and Grading:

Your final grade will be determined on the basis of:

1. Assignments, class participation and discussion (15%),
2. Two midterms (25% each),
3. Final exam (35%, cumulative but more focus on material covered after the second midterm)

Exams will consist of short descriptive questions, analytical problems, and essay questions. The exam questions will be somewhat similar to the assignments but they may also require you to show your knowledge of other concepts discussed in class that were not emphasized in the assignments. You may bring a basic calculator for the exam. Cell phones or calculators with a memory function are not permitted.
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Final grades will be determined as per the following absolute scale expressed as a percentage out of 100 points.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Percent Credit</th>
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<tbody>
<tr>
<td>A</td>
<td>94%+</td>
<td>B-</td>
<td>80-82.99%</td>
</tr>
<tr>
<td>A-</td>
<td>90-93.99%</td>
<td>C</td>
<td>70-79.99%</td>
</tr>
<tr>
<td>B+</td>
<td>87-89.99%</td>
<td>D</td>
<td>60-69.99%</td>
</tr>
<tr>
<td>B</td>
<td>83-86.99%</td>
<td>F</td>
<td>Below 60%</td>
</tr>
</tbody>
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I may curve your grades if the class average is very low, but there is no guarantee that I will do this.

Tentative Course Schedule:

This schedule may change depending on our progress. Any changes will be announced in class. All readings below are from Mankiw. Supplementary articles from The Economist will be distributed in class.

Topic 1: Introduction to macroeconomics
- Difference between macroeconomics and microeconomics; recent economic trends (Chapter 1)
- How economists use models to analyze economic problems; fundamental economic models (such as production possibilities frontier, circular flow of income, demand and supply) and their applications (Chapters 2 and 4)
- **Classes:** 01/09, 01/13, 01/18, 01/20, 01/25
- **No classes:** 01/11 (ASSHE conference in Atlanta) and 01/16 (MLK day)

Topic 2: Measuring the data in macroeconomics
- Measuring an economy’s income and output (GDP); components of GDP; relationship between income and standard of living (Chapter 5)
- Measuring the cost of living using the consumer price index (CPI); how cost of living changes over time; how cost of living varies across different cities and countries; comparing the strengths and weaknesses of different measures of cost of living (Chapter 6)
- **Classes:** 01/27, 01/30, 02/01, 02/03, 02/08, 02/10
- **Assignment due:** 02/10
- **Exam:** 02/13 (coverage: chapters discussed before 02/13)

Topic 3: Understanding long term changes in the economy
- Understanding the determinants of economic growth; the role of savings, investment, technology and trade; social and political factors; trends in economic growth for the USA and other emerging markets (Chapter 7)
- Savings, investments and the market for ‘loanable’ funds; the role played by banks and financial institutions in our economy; differences between household and government savings (budget); long term effect of budget deficit/surplus on savings and investment (Chapter 8)
- Measuring unemployment rate and labor force participation rate; distinction between different types of unemployment such as structural, cyclical, and frictional unemployment; the economy’s long term ‘natural’ rate of unemployment; how ‘discouraged’ workers affect the unemployment rate; government and business policies that affect unemployment (Chapter 10)
- **Classes:** 02/15, 02/17, 02/20, 02/24, 02/27
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Topic 4: The monetary system
- The meaning and functions of ‘money’; paper money versus commodity money; different measures of money; institutions that control money; the origin and role of the Federal Reserve; tools used by the Federal Reserve to control the supply of money in the economy (Chapter 11)
- The classical theory of money (quantity theory of money); the ‘velocity’ of money; how money affects prices and output in the long run; hyperinflation; the costs of inflation (Chapter 12)
- Classes: 02/29, 03/14, 03/16, 03/19, 03/21, 03/23
- Assignment due: 03/23
- Exam: 03/26 (coverage: chapters discussed between the first and second midterm)
- No classes: 03/02 (BUAD 480 China-Korea trip); 03/05, 03/07, 03/09 (Spring Break)

Topic 5: Short run changes in the economy
Note: This is arguably the most important and challenging topic in the course.
- Booms, recessions and depression; difference between short run and long run; difference between demand in macroeconomics and microeconomics; model of ‘aggregate demand’ and ‘aggregate supply’; factors that cause aggregate demand to shift/move; aggregate supply curve in the short run and long run; why the aggregate demand and supply curves have different shapes and slopes; analyzing changes in the economy (e.g. Great Depression, 2008 Financial Crisis, etc.) using aggregate demand and supply (Chapter 15)
- Relationship between money and interest rates (theory of liquidity preference); tools of monetary policy (interest rates, money supply) and fiscal policy (taxes, government spending); effects of these policies aggregate demand and supply and output and prices; tax multipliers, spending multipliers, and crowding-out effect (Chapter 16)
- Why sometimes there is a tradeoff between inflation and unemployment in the short run (Phillips curve); why the tradeoff between inflation and unemployment may sometimes not exist in the short run (e.g. stagflation); why the tradeoff between inflation and unemployment disappears in the long run; an alternate theory of ‘rational expectations’ and what it means for Phillips curve (Chapter 17)
- Classes: 03/28, 03/30, 04/02, 04/04, 04/11, 04/13, 04/16, 04/18
- No classes: 04/06, 04/09 (Easter Break)

Topic 6: Introduction to International Macroeconomics (‘Open Economy’ Macroeconomics)
- Relationship between exports, imports and international capital flows; factors that affect a country’s net exports and net capital flows; relationship between savings, investments and net capital flows; nominal versus real exchange rates; the theory of purchasing power parity and the relationship between exchange rates and prices (Chapter 13);
- Market for foreign currency exchange; how the market for loanable funds and the foreign exchange market are linked; using these two markets to explain the impact of a wide range of factors such as trade barriers, budget deficit, political instability, etc. on the economy’s currency (Chapter 14)
- Classes: 04/18, 04/20, 04/23, 04/25, 04/27
- Assignment due: 04/23

Comprehensive final exam for ECON 201-03: Wednesday, May 2, 10:30 am - 12:20 pm
Comprehensive final exam for ECON 201-08: Friday, May 4, 10:30 am - 12:20 pm
Administrative Issues:

Please read these course policies carefully.

Assignments:

- Assignments are due at the beginning of class on the due dates. For obvious reasons, any assignments I receive after the answers have been discussed in class will not receive any credit.
- Bring 2 copies of the assignment to class on the due dates so that we can go over the answers together in class (no email submissions please).
- Assignments will be handed out well in advance, so if you are likely to miss class on a day on which an assignment will be due, you can submit your assignment to me earlier.
- You may work with other students on the assignments, but the final answer should be written using your own words.

Attendance:

- I encourage you to attend class regularly. Although I will try to follow the textbook closely, the lecture material will not always be organized in the same order as the textbook. So, having a good set of lecture notes is essential for doing well in this class. Anything discussed in class (even if it is mentioned very briefly) will be considered fair game for the exams.
- If you miss a class, please get the lecture notes from one of your classmates. After going through the notes, feel free to talk to me if you have any questions.

Class conduct:

- I will factor in your class conduct during class/office hours/email in determining your final grade. Arriving to class on time and staying in class till it ends, submitting assignments on time, and maintaining a positive and constructive attitude during class will reflect favorably on your final grade.
- I received complaints from some students in the past that they have been distracted by the use of electronic devices (e.g. laptops, ipads, etc.) by the person sitting next to them. So, please minimize the use of these and other non-class related materials during class.

Makeup exams:

- A make-up exam will only be given in the case of a documented emergency and if you notify me in advance. The exam will be on the same topics, but I may change the exam questions so that there are no significant advantages to taking it later.
- Your documentation (e.g. doctor’s note) should clearly specify why you are unable to come to class on the day of the exam.

Re-grading:

- If you would like me to re-grade an exam, submit your request in writing on a separate sheet of paper. Write down the question number(s) you want to be re-graded along with the reason for it.
- Re-grading requests must be made within a week of receiving the graded exam.
- Upon receiving your re-grading request, I may re-grade the entire exam.
Email:
- Please use email mainly for emergencies or for setting up appointments to see me.
- Questions about assignments, exams, grades, etc. should be addressed to me in person during class or in my office.
- Due to the volume of emails I receive each semester, please be patient if you do not receive an immediate response to your email. Ask your questions well before an exam or assignment due date to receive an answer in time.
- Before sending an email, check this syllabus to see if your question has already been answered.

Academic honesty:
Xavier has a strict policy for cheating/plagiarism. The minimum penalty is a grade of “F” in the course and any such incident will be reported to the Dean. If you are not sure about what constitutes cheating/plagiarism, please come and talk to me.

Other grade-related issues:
Please refrain from requesting a grade increase citing personal reasons. I understand that some students may have personal circumstances that may make it challenging for them to do well in the course. In fairness, everyone faces challenges throughout the term, so it will be unfair to the other students if I only respond to those students who ask for special considerations. If you need to get a good grade in the class, work hard from the beginning. Come to class, pay attention, do the assignments carefully and talk to me whenever you have any questions about anything. I want each of you to succeed in this class and I will do my best to help you with the course material.

Accommodations for disability:
Anyone who feels he/she may need an academic accommodation based on the impact of a disability (e.g.: sensory, learning, psychological, medical, mobility) should contact me to arrange an appointment to discuss your needs as soon as possible. I rely on the Disability Services Office for assistance in verifying your eligibility for academic accommodations related to your disability. If you have not previously contacted Disability Services, I encourage you to do so at 513-745-3280 on the Fifth Floor of the Conaton Learning Commons, Room 514 or e-mail Cassandra Jones at jonesc20@xavier.edu, to coordinate reasonable accommodations.

About the course:
This is an interesting but challenging course. If you want to do well in this course, you should study both your class notes and the textbook. Start working on the problem sets as soon as they are handed out. Participate in class discussions and feel free to talk to me whenever you have any questions. At the same time, have fun! From past experience, I know that students enjoy seeing real world applications of the concepts they learn in this class.

If you feel that the course is moving too fast for you, stop by my office during my office hours or set up an appointment with me. On the other hand, if you are doing very well in the class, please understand that there are other students in class who may have a different background from you, and I may need to accommodate them as well. I want to make the classroom environment relaxed and interactive so that everyone feels comfortable asking questions and participating in class discussions.