

ECON*2410: INTERMEDIATE MACROECONOMICS

College of Management and Economics
Department of Economics and Finance

Winter 2012

Section 2

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Office Hours: F, 9:30-12:30 p.m.

Lectures: M, W, F, 8:30-9:20 a.m. MacK 117
Labs: 4, Th 11:30-12:20 p.m. MacK 233
5, W 3:30-4:20 p.m. MacK 227
6, F 2:30-3:20 p.m. MacK 234

It is your responsibility as a student to be aware of and abide by the University's policies regarding academic misconduct, e-mail communication, maintain copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester. To better understand these policies visit:

<http://www.economics.uoguelph.ca/student-responsibilities-policies.asp>

COURSE OUTLINE

Objectives:

Intermediate Macroeconomics is designed to provide students with a solid command of intermediate macroeconomic theory as a tool for understanding how the Canadian economy behaves as a whole. This course attempts to strike an appropriate balance between the analysis of long-run and short-run macroeconomic performance; between Keynesian and Classical perspectives; between theory and policy applications.

This course develops basic theoretical models of goods, labour and asset markets and analyses interactions among these markets in the framework of the economy as a whole. Topics include: determinants of key macroeconomic variables such as GDP, interest rates, and unemployment. After an introduction to the course, we will review the meaning and measurement of selected macro variables. We will then develop Classical and Keynesian models for closed and open economies. To conclude the course, we will examine the problems of inflation and unemployment and questions related to government deficits and debt.

Prerequisites: Econ*1050, Econ*1100

Grades:

Course grades will be determined according to the following weighting scheme:
1st Midterm Examination Week 4 - (Monday January 30th 2012) 25%
2nd Midterm Examination Week 8 - (Wednesday February 29th 2012) 25%
1 Final Examination Thursday April 19th 8:30-10:30 am 50%

Required Textbook:



Macroeconomics, Sixth Canadian Edition, 6/E

Andrew B. Abel, *University of Pennsylvania*

Ben S. Bernanke, *Chairman of the Federal Reserve*

Dean Croushore, *Robins School of Business, University of Richmond*

Ronald D. Kneebone, *University of Calgary*

ISBN-10: 0321675606

ISBN-13: 9780321675606

Publisher: Pearson Education Canada

Copyright: 2012

Format: Cloth; 656 pp

Published: 10/03/2011

Online Resources:

Companion Website:

To access the companion website click on:

<http://www.pearsoned.ca/abel>

Scroll down and select the 6th Edition of the textbook.

Alternatively you may click on: <http://www.pearsoned.ca/highered/divisions/bande/abel/>

To access the 6th edition of the text

Online Course Materials:

Additional resources will be available at:

<http://courselink.uoguelph.ca/>

Course Evaluation:

You will be asked to complete an evaluation of this course at some time during the last two weeks of the semester. **The course evaluation will be held in class.** The Department of Economics and Finance policy regarding the conduct and use of these evaluations will be found at:

<http://www.economics.uoguelph.ca/course-evaluation.asp>

COURSE CONTENT

Topic 1: Introduction

Chapter 1 pp. 1-10 and pp. 14-19
Chapter 8 pp. 256-265

Comments:

Chapter 1

Omit reading pp.10-14 – Section 1.2 – ‘What Macroeconomists Do’

Continue reading page 14 Section 1.3 – ‘Why Macroeconomists Disagree’ to the end of the chapter.

It is important that you read Chapter 1 but don’t spend a lot of time on it. Focus mainly on the Classical-Keynesian debate.

Chapter 8

Stop reading page 265 ‘Are Business Cycles Made in Canada?’

Chapter 8 mentions that economic growth is an important macroeconomic issue. This is certainly true, but it is a topic that is best left to more advanced courses.

Topic 2: Some Basic Macroeconomic Concepts

Chapter 2

Comments:

There are a couple of minor differences between the notes and the text: (1) the notes use the concept of personal disposable income whereas the text employs private disposable income, and (2) the notes distinguish between personal and business saving whereas the text does not.

Omit reading Section 2.4 pp. 41-42 section on ‘Real GDP’. These pages of reading describe an outdated method for calculating Real GDP. I am going to talk about the Fisher Volume Index method used to calculate Real GDP in lectures.

Continue reading on page 42 – ‘Price Indexes’

Topic 3: The Aggregate Production Function and the Labour Market

Chapter 3 pp. 54-92

Comments:

Omit reading pp. 72-74 – sections describing the ‘income and substitution effects’

Continue reading on page 74 – Section 7.2 ‘The Labour Supply Curve’

Stop reading on page 92 Section 3.6 – ‘Relating Output and Unemployment: Okun’s Law’

Topic 4: The Goods Market

Chapter 4 pp. 104-114 and pp. 116-137

Comments:

Students often have difficulty understanding the effects of fiscal policy on desired consumption and desired national saving (pp. 116-119). Because of this, I have tried to explain these effects in some detail.

Omit reading pp. 114-116 ‘Taxes and the Real Return to Saving’

Omit reading p. 117 ‘Table 4.1 – Calculating After-Tax Interest Rates’

Topic 5: The Asset Market
Chapter 7: pp. 223-241, pp. 244-247

Comments:

Omit reading on M3 pp. 227-228 'The M2 and M3 Monetary Aggregates'

Omit reading p. 228 - 'Weighted Monetary Aggregates'

Focus on M1+ and M2 monetary aggregates

*Omit reading on "Elasticities of Money Demand" and "Quantity Theory of Money"
pp. 241-244*

Continue reading p. 244 Section 7.4 – 'Asset Market Equilibrium'

Stop reading on page 247 Section 7.5 – 'Money Growth and Inflation'

*The lecture notes do not explain how central banks (the Bank of Canada in this country) control the money supply. To refresh your memory on how this is done, briefly review your ECON*1100 notes dealing with this topic. In addition, see pp. 228-229 the section on 'The Money Supply'.*

Topic 6: The Complete Classical Model
Chapter 9 pp. 285-304

Comments

Section 9.5 attempts to fuse the classical and Keynesian models by using the Keynesian approach to explain how equilibrium is achieved in the classical model. In my opinion, this approach leads to confusion, and it is difficult to follow without first having read Chapter 12. For these reasons, you should omit Section 9.5. The approach used in lectures is more straightforward.

Topic 7: A Keynesian Model
Chapter 12: Appendix 12.A pp. 480-486
pp. 457-468

Comments

Page 457 – begin p. 455 'Section 12.4 – Price Stickiness'

Page 468 – stop reading at 'Supply Shocks in the Keynesian Model'

The discussions of the efficiency wage model and price stickiness in Appendix 12.A and Section 12.4 are more detailed than we require, so read these sections selectively. Section 12.5, especially the part dealing with stabilization policy, is highly recommended. Skip the material dealing with (a) the so-called classical model and (b) the AD-AS approach.

I may assign additional reading for this topic and will inform you if that is the case.

Topic 8: Aggregate Demand and Aggregate Supply
Chapter 8: pp. 277-282
Chapter 9: pp. 311-319
Chapter 12: pp. 448-456

Comments

Page 277 – begin reading Section 8.4 – 'Business Cycle Analysis: A Preview'

Page 311 – begin reading Section 9.6 – 'The Aggregate Demand-Aggregate Supply Model'

Page 448 – begin reading Section 12.2 – 'Monetary and Fiscal Policy in the Keynesian Model'

Page 456 – stop reading Section 12.3 – 'Criticisms of Nominal Wage Rigidity'

Try to focus on the material dealing with the AD-AS approach.

Topic 9: Macroeconomics in an Open Economy

Chapter 5 pp. 144-153, pp. 169-173
Chapter 10: pp. 336-345, pp. 350-367

Comments

Page 153 – stop reading Section 5.2 – ‘Goods Market Equilibrium in an Open Economy’

Page 169 – begin reading Section 5.5 – ‘Fiscal Policy and the Current Account’

Page 350 – begin reading Section 10.3 – ‘The International Asset Market: Interest Rate Parity’

Page 367 – stop reading Section 10.6 – ‘Fixed Exchange Rates’

In the notes I draw on parts of Chapters 5 and 10 to formulate what I hope is a coherent discussion of macroeconomics in a small open economy.

Topic 10: Government Deficits and Debt

Chapter 15: pp. 561-575, pp. 580-587

Comments

Page 587 – stop reading at ‘Ricardian Equivalence across Generations’

Chapter 15 is a very readable chapter dealing with a macroeconomic issue that is currently quite important.

Topic 11: Inflation and Unemployment

Chapter 13: pp. 490-504

Comments

Page 504 – stop reading at Section 13.2 – ‘The Problem of Unemployment’

Please note: The material on the tests and the final exam are based on the lecture notes. When studying, please read the lecture notes first and use the textbook to supplement what was said in class.