

BOSTON COLLEGE
Department of Economics

EC 132.07 & .08
Principles of Economics--Macro
Spring 1997

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and by Appointment
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The ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Mad men in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

John Maynard Keynes, 1926

I. Course Objective

The objective of this course is to learn the fundamentals of macroeconomics. In order to achieve this goal, you must become literate in the vocabulary, obtain a sound understanding of the concepts of macroeconomics including economic growth, unemployment, inflation, balance of trade, national income accounting, multipliers, fiscal policy, monetary policy, money, aggregate demand, aggregate supply, international trade, and international finance.

II. Required Text

Tresch, Richard W., Principles of Economics, West Publishing Company, 1994.

All readings in the course outline refer to Tresch.

III. Course Requirements

	<u>dates</u>	<u>% of final grade</u>
Term paper	April 25, (Friday)	15%
Paper topic	March 21, (Friday)	
First exam	February 19, (Wednesday)	25%
Second exam	April 2, (Wednesday)	25%
Final exam	May 3, (Saturday, 9:00)	35%
Numerous problem sets (optional but strongly recommended) used as additional evidence for adding up to one notch on your final grade (C to C+, B- to B, etc.).		

IV. Course Organization and Expectations

- The final exam is comprehensive.
- You are held responsible for all readings, assignments and announcements made in class.
- All exams must be taken. Failure to take any exam **will result in a zero** for that exam. Absolutely **NO** make up exams will be given in this course. Any valid excuse must be **approved through me prior to the exam**. Any excused exam that is missed will result in re-weighting of subsequent exams. If school happens to be canceled (ex. snow day) on the day of a scheduled exam, the exam will be given on the next class meeting. Since the dates of the exams are known in advance, please plan your travel arrangements accordingly.
- Problem sets will be given throughout the course. The best way to learn economics is by solving problems. They are **optional** but strongly recommended. Indeed, they are not only used as additional evidence for adding up to one notch on your final grade (C to C+, B- to B, etc.), but also designed to help you study for the exams. It is therefore in your best interest to work on them thoroughly. Problem sets will be handed out one week before they are due. I will still collect them and grade them. **NO** late assignment will be accepted. Answers to the problems will be made available.
- You may work together on the problem sets--indeed you are strongly encouraged to do so--but you are not to simply copy the work from someone else. You are to work through your own answers before turning them in.
- Class attendance is extremely important and active participation in class is strongly encouraged. You are always welcome to ask questions or raise an issue of interest. Both class attendance and participation (mainly class attendance) will be considered in addition to the problem sets when determining a borderline grade.
- If there is anything that you do not understand from the lectures, feel free to come see me during my office hours, or to set up an appointment as soon as possible. Do not wait until the day before an exam to try to clarify or understand certain concepts. Also, the Academic Development Center (ADC), located on the second floor of the O'Neill Library, provides free tutoring services. You should take advantage of those.
- There are no formal prerequisites for this class. However, certain mathematical skills up to and including some of high school algebra are essential. The most important skill is how to read and understand graphs. Also, you need to be able to manipulate fractions, simple equations, percentages, and decimals. The essential elements of the mathematical techniques required will be presented in class as we go along.
- **Academic Integrity:** Please be advised that cheating on any exam will not be tolerated and will result in an automatic failing grade on the exam in question. This will be the minimum action taken. Please refer to the page on Academic Integrity taken from the BC Student Handbook.

Course Outline:

I. Introduction: basic and fundamental concepts (2 weeks)

- A. Economic Problem, Opportunity costs, Economic exchange Ch. 1
- B. Efficiency, Equity, Model, Margin Ch. 2 (pp.18-29)
- C. Microeconomics vs Macroeconomics Ch. 2 (pp.31-33)
- D. Production Possibilities Frontier and Long-run Economic Growth Ch. 3 (pp.38-57)
- E. The Circular Flow of Economic Activity Ch. 4 (pp.77-80)
- F. The Laws of Supply and Demand Ch. 5, 6, 7

II. Overview of Macroeconomics (4 weeks)

A. The Macroeconomic Policy Goals

- 1. Long-run Economic Growth Ch. 25 (pp.700-706)
(Review Production Possibilities Frontier and Long-run Economic Growth)
- 2. Full employment Ch. 25 (pp.706-726)
- 3. Price Stability Ch. 26 (pp.732-752)
- 4. Stable International Economic Relations Ch. 26 (pp.752-759)

B. National Income Accounting Ch. 27

C. Modeling the Macro Economy Ch. 28

III. The Theory of Income Determination and Macroeconomic Policy (7 weeks)

A. National Income Determination and Fiscal Policy

- 1. National Income Determination Ch. 29
- 2. The Spending Multiplier and Fiscal Policy Ch. 30
- 3. Automatic Stabilizers, Net Exports, and Budget Deficits Ch. 31

B. Business Cycles (we may not cover this topic)

C. Money, Banking, and Monetary Policy

- 1. Principles of Money and Banking Ch. 33
- 2. The Monetary System of the United States Ch. 34
- 3. Monetary Policy Ch. 35

D. Fiscal and Monetary Policy Mixes

E. The Role of Prices and the Problem of Inflation

- 1. Aggregate Supply and Aggregate Demand Ch. 39
- 2. Controlling Inflation and Other Policy Issues Ch. 40

IV. The Open Economy (As time permits)

- A. International Trade and Trade Restrictions Ch. 39
- B. International Finance: Balance of Payments and Exchange Rates Ch. 40