

BOSTON COLLEGE

Department of Economics

Principles of Macroeconomics
EC 132 09 MWF 2.00 pm

Professor: John Barkoulas
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Office Hrs: MW 12:30 - 1.30 pm
and by Appointment

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. Educational Objective

The first objective of this course is to provide students with an appreciation of economic principles and an intuitive understanding of basic macroeconomic problems. The second and ultimate objective, which presupposes the first one, is to help students think independently about related economic issues in real life. In other words, primary emphasis will be placed on helping students learn how economists think about problems.

II. Teaching Philosophy

What I plan to teach is not "what is often derogatively known as pure theory - i.e., stuff too abstract to be useful - but instead a useful picture of how things would be done if stodginess and inappropriate wisdom could be overcome."¹ "The really useful training yields a comprehension of a few general principles with a thorough grounding in the way they apply to a variety of concrete details."²

III. Required Text

Principles of Economics by R. Tresch, 1994.

Optional: *The Wall Street Journal*, is highly recommended.

All readings in the course outline refer to Tresch's textbook unless otherwise indicated. Material from other sources will either be put on reserve

¹ Paul Cootner (*B.S. 329, Graduate School of Management, Stanford University*).

² Alfred Whitehead (*The Aims of Education and Other Essays*).

in O'Neil Library or handed out in class. In addition to the readings from the text, all students are expected to follow current press reports on output, employment, inflation, fiscal and monetary policy, the budget deficit, the trade deficit, and other issues of macroeconomic policy.

IV. Course Requirements

-- **Grades:** Mid-term #1 (Feb. 14, Friday), Mid-term #2 (March 24, Friday), Final (May 9, Friday, 12:30 pm).

-- The final exam is comprehensive.

-- **Absolutely NO make up exams will be given in this course.** All exams must be taken. If school happens to be canceled (ex. snow day) on the day of the 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 highly recommended. Problem sets will not be collected but will help you master the more difficult material. Selected problems will be discussed and solved in class. Answers to the problems will be made available. Students are strongly encouraged to work together on problem sets.

-- 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 will be considered when determining a borderline grade.

-- 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.

-- 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.

V. Course Summary

This course is an introduction to the theory of income determination, business cycles, national income analysis, and economic growth. The role of the labor and capital markets in economic activity will be examined to explore the problems of unemployment and inflation. The functioning and impact of government stabilization policies including monetary and fiscal

policy will also be explored. The mechanics of international transactions and balance of trade will be examined as they influence the domestic economy.

COURSE OUTLINE

BASIC CONCEPTS

Introduction (Ch. 1)
The Economic Problem (Ch. 2, 3)
The Role of the Government (Ch. 23, 24)

OVERVIEW OF MACROECONOMICS

Macroeconomic Policy Goals (Ch. 25, 26)
Measuring National Output and Income (Ch. 27)

INCOME DETERMINATION, FISCAL POLICY, AND UNEMPLOYMENT

National Income Determination (Ch. 29)
The Multiplier Model (Ch. 30)
Automatic Stabilizers, Net Exports, and Budget Deficits (Ch. 31)
Business Cycles (Ch. 32)

MONEY AND MONETARY POLICY

Money and Commercial Banking (Ch. 33)
Central Banking (Ch. 34)
Monetary Policy (Ch. 35)
Fiscal Policy, Monetary Policy, and Macroeconomic Policy Goals (Ch. 36)

AGGREGATE SUPPLY AND MACROECONOMIC POLICY

Aggregate Demand, Aggregate Supply (Ch. 37)
Inflation (Ch. 38)

INTERNATIONAL TRADE AND THE WORLD ECONOMY

International Trade and the Theory of Comparative Advantage (Ch. 39)
Exchange Rates and the International Financial System (Ch. 40)
The Economics of Developing Countries (Ch. 41)