BOSTON COLLEGE
CHESTNUT HILL, MASSACHUSETTS 02167

Principles of Macroeconomics   Instructor: Carol Kallman
EC132.14 / EC132.16 - Spring 1997   Carney 33-B
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<u>Class time and room</u>: T / Th Noon, Carney 105 (132.14)
                                   T / Th 3 PM, O'neill 254 (132.16)

<u>Office hours</u>:   Tuesday 10-11:30
                              Thursday 4:30-6   or by appointment

<u>Course Objective</u>: To become familiar with the foundations of Macroeconomics. Topics to be covered include an overview of the New Classical and New Keynesian models, National Income Accounting, fiscal policy, monetary policy and inflation. The main portion of this class will emphasize how the macroeconomy can be modeled, both mathematically and graphically, and we will use these models to understand how changes in government spending, tax policy, monetary policy and consumer and investment demand affect the level of aggregate demand and national income. A familiarity with solving systems of linear equations and graphing linear equations is expected; we will use these mathematical concepts in the course.

The course will closely follow the text listed below. I strongly recommend keeping up with the reading in the text and reviewing your notes on a weekly if not daily basis. At the end of each chapter are questions which I encourage you to work through. Class participation is also encouraged.

<u>Text</u>:   REQUIRED - Tresch, Richard, <u>Principles of Economics</u>, West Publishing Co.
           OPTIONAL - <u>Study Guide to Accompany Principles of Economics</u>.

I will not be assigning any problems from the study guide. It is strictly for your own use. Be forewarned that many of the answers in the back of the book are incorrect.

<u>Course Requirements</u>:

Breakdown of grades

	% of grade
Homework	40%
Midterm	30%
Final	30%

Homework

There are ten homework assignments which will be given out approximately every week. If I do not have your homework in hand when I leave for the day, you will receive a zero on that particular homework. At the end of the semester I will drop your two lowest homework grades. Thus, each homework is worth 5% of your grade. You are permitted (and encouraged) to work together on the homework. If you work in a group of<u>three or less</u>, you may hand in a single homework. Be sure to include all names. Homework may be hand written but please make sure I can read your writing! Whenever the homework is of a problem solving nature (i.e. solving equations) all work must be shown.

Midterm and Final

The midterm and final are each worth 30% of your grade. Note that the midterm is the Thursday before spring break and makeup exams will not be given. A missed exam will receive a grade of zero unless you notify me ahead of time and I give my consent for you to miss it. Personal illness will require a note from the health center.

Academic Integrity: You are expected to do your own work on exams. Any violation of this standard will be dealt with as detailed in the BC Student Handbook. Graphing and programmable calculators may be used during exams, but you may only use them to multiply, divide, add and subtract. For example, you may NOT use them for graphing purposes or for programming in formulas - to do so will be considered a violation of academic integrity.

Schedule: Below I have listed the dates I will be handing out homework assignments, the dates homework assignments are due, midterm and final dates, dates when our class will not meet and the last day of class.

T = Tuesday
Th = Thursday

Th 1/23   HW 1 handed out
Th 1/30   HW 1 due, HW 2 handed out
Th 2/6   HW 2 due, HW 3 handed out
Th 2/13   HW 3 due, HW 4 handed out
Th 2/20   HW 4 due
Th 2/27   MIDTERM
T 3/4   no class, spring break
Th 3/6   no class, spring break
T 3/11   HW 5 handed out
T 3/18 HW 5 due, HW 6 handed out
T 3/25   HW 6 due, HW 7 handed out
Th 3/27   no class, Easter break
Th 4/3   HW 7 due, HW 8 handed out
Th 4/10   HW 8 due, HW 9 handed out
Th 4/17   HW 9 due, HW 10 handed out
Th 4/24   HW 10 due
T 4/29   last day of class
Sat 5/3 Final at 12:30 PM (Noon class)
Wed 5/7   Final at 9 AM (3 PM class)

Outline of class - all page numbers refer to the text above

I. Introduction - Review of topics covered in Microeconomics which we will use in this class

    A. Economic problems (p. 4-13 in chapter 1 and p. 26 in chapter 2)
    B. Micro and macroeconomics (p. 31-33 in chapter 2)
    C. The circular flow (p. 77-79 in chapter 4)
    D. Demand (p. 100-108 in chapter 5)
    E. Supply (p. 130-133 and 145-147 in chapter 6)

II. Macroeconomic policy goals

    A. Chapter 25
        1 - Production possibilities (p. 42-49 in chapter 3)
            Also read about efficiency (p. 19-22 in chapter 2)
        2 - Long run economic growth (p. 49-57 in chapter 3 and p. 700-706)
        3 - Full employment (p. 706-726)
            Measuring unemployment (p. 706-710)
            Types of unemployment (p. 711-722)
                Cyclical, frictional and structural unemployment
            Natural rate of unemployment (p. 722-725)

    B. Chapter 26
        1 - Low inflation (p. 732-752)
            Defining inflation (p. 732-733)
            Computing the rate of inflation; CPI, PPI, GDP deflator
            (p. 734-740)
            Costs of inflation (p. 741-752)
         2 - Imports, exports and the value of the dollar (p. 752-759)
            Balance of trade (p. 752-753)
            Exchange rates, appreciation, depreciation (p. 753-754)
            How exchange rates affect balance of trade (p. 754-759)

III. Macroeconomic models

    A. Chapter 27 (p. 764-792)
        1 - National income = national product IDENTITY (p. 764-767)
        2 - Value added (p. 767-769)
        3 - Gross domestic product (GDP), net domestic product (NDP), and
national income (NI) - what is included in each one (p. 769-778)
        4 - Disposable income (DI), saving = investment IDENTITY (p. 778-784)
        5 - Real versus nominal GDP (p. 784-792)

    B. Chapter 28 (p. 796-820)
        1 - Macro policy and the need for a macro model (p. 796-805)
        2 - Comparing the New Classical and New Keynesian models (p. 805-820)

IV. Chapter 29 - A simple Keynesian model ignoring government sector
(p. 830-863 and 868-871)

    A. Building up aggregate demand (AD) (p. 830-856)
        1 - General (p. 830-832)
        2 - Consumption demand
            Keynesian consumption function; saving, marginal (average)
propensity to consume (save) (p. 832-841)
            Other things which may influence consumption (p. 841-846)
        3 - Investment demand (p. 846-856)
            Investment in plant and equipment (p. 846-852)
            Investment in inventory (p. 853-854)
            Investment in housing (p. 854-856)

    B. Equilibrium (p. 856-863 and 868-871)

V. Changes in Equilibrium

    A. Chapter 30 (p. 874-906 and 910-913)
        1 - The macro policy problem (p. 874-878)
        2 - Introduction to the spending multiplier using an autonomous increase in
investment (p. 878-886 and 910-911))
        3 - Adding the government sector to the simple model
(p. 886-902 and 911-913)
            Government purchases (p. 886-892 and 911-913)
            Taxes (independent of NI) (p. 892-894 and 911-913)
            Transfers (independent of NI) (p. 894-896 and 911-913)
            Balanced Budget (p. 896-902 and 911-913)
        4 - Fiscal policy in practice (p. 902-906)

    B. Chapter 31 (p. 916-944 and 949-952)
        1 - Taxes and transfers (dependent on NI) act as automatic stabilizers
(p. 916-922 and 949-951)
        2 - Adding net exports to the simple model, they act as automatic stabilizers
(p. 923-929 and 951-952[1])
        3 - Are automatic stabilizers good or bad? (p. 929-932)
        4 - Budget deficits (p. 932-944)

SKIP CHAPTER 32

Outline for chapters 33-39 to be handed out at a later date.

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[1] In text import demand depends on national income. We will specify that import demand depends on disposable income, just like consumer demand does. Thus, we will use a different multiplier than the on one page 952.