

BOSTON COLLEGE
Department of Economics

EC 132.11 (MWF2)
Principles of Economics--Macro
Spring 1999

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Office Hours: W 11:00 - 1:00
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>
First exam	February 19, (Friday)	30%
Second exam	March 26, (Friday)	30%
Final exam	May 8, (Saturday, 12:30)	40%
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.).		

The usual letter grade will be assigned. [Definition of letter grades: A, A-, excellent; B+, B, B-, good; C+, C, C-, satisfactory; D+, D, D-, passing but unsatisfactory; F, failure or course dropped without notifying office; W, withdrawal from course; I, incomplete.]

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 at least 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)

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| 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

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| 1. Long-run Economic Growth
(Review Production Possibilities Frontier and Long-run Economic Growth) | Ch. 25 (pp.700-706) |
| 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

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| 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

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| 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

Ch. 36

E. The Role of Prices and the Problem of Inflation

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| 1. Aggregate Supply and Aggregate Demand | Ch. 37 |
| 2. Controlling Inflation and Other Policy Issues | Ch. 38 |

IV. The Open Economy (As time permits)

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