

Economics 132.03
Principles of Macroeconomics
Spring 2008

Tuesdays and Thursdays, 10:30 – 11:45am
Fulton Hall, Room 511

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Office Hours: Tuesdays, 12noon – 2:30pm

<http://www2.bc.edu/~irelandp/ec132.html>

Course Description

This course is one of two introductory courses in economics that: (i) are required for students in the College of Arts and Sciences majoring or minoring in economics, (ii) are required for all students in the Carroll School of Management, and (iii) fulfill the Social Science Core requirement.

EC131, Principles of Microeconomics, studies how individual households and firms make decisions and how they interact in markets.

EC132, Principles of Macroeconomics (this course), studies the economy as a whole, to explain how economic events affect many households, firms, and markets simultaneously.

Ideally, you would take these two courses in sequence: EC131 in the Fall and EC132 in the Spring. Strictly speaking, however, the two courses may be taken in any order; and, to satisfy the University Core requirement, one of these courses may be taken together with another Social Science Core course. To every extent possible, I will make this course in Macroeconomic Principles self-contained and not dependent on prior knowledge of the material covered in Microeconomic Principles.

Course Materials and Resources

Textbook: N. Gregory Mankiw. *Principles of Economics* 4th ed., 2007 (hardcover) or *Principles of Macroeconomics* 4th ed., 2007 (paperback).

You will already own the hardcover textbook if you were enrolled in EC131.03 last fall. If you did not take EC131, or if you enrolled in a different section, you might find it advantageous to purchase the slightly less expensive paperback. The chapter numbers differ across the two versions of the text, but the chapter titles and all of the content are exactly the same.

Lecture Notes: My lecture notes, based on Mankiw's book, will be freely available through the course webpage: <http://www2.bc.edu/~irelandp/ec132.html>.

Supplementary Material: Links to additional material that we will discuss in class, such as newspaper or magazine articles and other related webpages, will also be available through the same course webpage.

Problem Sets: Are described in more detail below.

Weekly Discussion Sections: Will be run by teaching assistants Mr. Luigi Pascali, Ms. Madhavi Pundit, and Ms. Nisha Ye. Sign-up sheets for individual discussion sections will be distributed and collected during drop-add period. The T.A.'s will use these discussion sections to hand back your graded problem sets and exams and to review, discuss, and answer any questions that you might have about the problem sets, exams, and the course material in general. The T.A.'s will also hold regular weekly office hours. The teaching assistants are here to help you as well as me, so please don't hesitate to go to them with any questions or concerns that you might have about the course!

Course Requirements and Grading

Your grade for this course will be based on two midterm exams, a final exam, and a series of problem sets.

For the exams, you will be held responsible for material covered in: (i) our in-class discussions, (ii) the relevant chapters of Mankiw's textbook, (iii) the lecture notes, (iv) any supplementary material that we discuss in class, and (v) the problem sets.

Midterm Exam: The midterm exams will be held during our regular class meeting times on Thursday, February 14 and Thursday, April 3. These midterm exams will *not* be cumulative, that is, each midterm will only cover material presented since the previous exam.

Final Exam: The final exam will be held during the final examination period, according to the University's official final exam schedule, on Monday, May 12 at 9 am. The final exam *will* be cumulative, that is, it will cover material from the entire semester.

Problem Sets: Problem sets covering material from each of the chapters from Mankiw's book that we will discuss in class will be distributed in class and collected on due dates announced ahead of time in class. Extra copies of the problem sets will also be posted on the course webpage. It is fine for you to work together with other students on these problem sets, but I expect each of you to write up and submit your own individual answers for grading. It can often help, in learning the course material, to discuss the problem set questions with your classmates. But also keep in mind that the purpose of the problem sets – namely, to help you learn the material – is defeated if you simply take your answers from someone else without really thinking about them yourself.

Grading System

Problem Sets: I will drop the two lowest scores that you receive on the graded problem sets and then weight each of the remaining problem sets equally to determine 10 percent of your course grade.

Midterm Exams: Each of the two midterm exams will determine 25 percent of your course grade.

Final Exam: The final exam will determine the remaining 40 percent of your course grade.

Policies on Late Homework Assignments and Missed Exams

Late Homework Assignments: Please understand that for a class this size, the T.A.'s and I cannot accept problem sets completed after the due date. Partly for this reason, I have adopted the policy described above, according to which I will drop the two lowest scores that you receive on the graded problem sets. This gives you some insurance against being sick, having personal or technical difficulties that prevent you from completing any given assignment on the due date, or just having a bad or busy day. If for whatever reason it simply isn't feasible for you to complete one or two of the assignments on time, that's ok: you will still be able to earn a good grade for the course as a whole, provided such events are isolated and that you otherwise complete the assignments regularly.

Missed Exams: Make-up exams will not be given. Please let me know as soon as possible, preferably before but if necessary after the fact, if a serious illness, personal emergency, or other exceptional event prevents you from taking one of the midterm exams. In those exceptional cases, I will base 10 percent of your course grade on the problem sets, 35 percent of your course grade on the remaining midterm, and 55 percent of your course grade on the final exam. Please understand that out of fairness to the other students, I will have to assign a grade of zero to a midterm if your absence is unexcused.

Academic Integrity

Boston College values the academic integrity of its students and faculty. It is your responsibility to familiarize yourself with the University's policy on academic integrity, which can be found at <http://www.bc.edu/integrity>. If you have any questions, please let me know.

Violations of academic integrity will be reported to your class dean and judged by the academic integrity committee in your school. If you are found responsible for violating the policy, penalties may include a failing grade as well as possible probation, suspension, or expulsion, depending on the seriousness and circumstances of the violation.

Office Hours

I will hold regular office hours (21 Campanella Way, Room 444) on Tuesdays from 12noon until 2:30pm. I will also be available at other times; to make an appointment, you can reach me by phone at 552-3687 or (preferably) by email at irelandp@bc.edu.

Macroeconomics as a Social Science: Organizing Principles

The Social Sciences are included in the University Core curriculum to help students understand the causes and consequences of human behavior and the dynamics and dimensions of social interaction. As

a Social Science Core course, EC132, Principles of Macroeconomics, will focus specifically on questions including, but by no means limited to: (i) why do some economies grow more quickly than others, and what are the consequences for the well-being and happiness of the individuals that populate these economies? (ii) why does the rate of unemployment fluctuate over time within any given economy, and what can public policy do to minimize these fluctuations and the costs that they impose on society? (iii) why do some economies experience episodes of high inflation, and what can be done to prevent their reoccurrence? (iv) what shapes the trade-offs, if any, that societies face between inflation and unemployment, and what can policymakers do to best manage these trade-offs?

Throughout the semester, we will see how economists, as social scientists, use a combination of theory (hypotheses) and evidence (data) to address these questions. As we do so, we will come to see how a few basic principles underlie macroeconomists' understanding of these issues. These three basic principles also help determine the organization of this course and are therefore reflected in the design of the course outline.

The **classical dichotomy** draws a distinction between what macroeconomists call "real variables," variables like output or unemployment that are measured in physical units of goods or labor, and what macroeconomists call "nominal variables," variables like prices that are measured in units of money (dollars).

The **long-run neutrality of money** says that, in the long run, changes in the money supply affect nominal variables but not real variables. The neutrality of money implies that in the long run, real and nominal variables can be studied separately. Output is determined mainly by the supplies of capital, labor, and natural resources, and the stock of technological knowledge, and unemployment is determined mainly by the workings of the labor market. Meanwhile, prices and their rate of change (inflation) are determined mainly by the government's decisions to supply more or less money.

Although most macroeconomists believe that the neutrality of money holds in the long run, they also believe that there are important linkages between real and nominal variables in the short run. The most famous of these linkages comes through the **Phillips curve**, which describes the short-run relationship between inflation (a nominal variable) and unemployment (a real variable).

Course Outline

A. The Data of Macroeconomics

1. Measuring a Nation's Income (Mankiw, Ch. 23 hardcover/Ch. 10 paperback)
2. Measuring the Cost of Living (Ch. 24/11)

B. The Real Economy in the Long Run

3. Production and Growth (Ch. 25/12)
4. Saving, Investment, and the Financial System (Ch. 26/13)
5. The Basic Tools of Finance (Ch. 27/14)
6. Unemployment (Ch. 28/15)

C. Money and Prices in the Long Run

7. The Monetary System (Ch. 29/16)
8. Money Growth and Inflation (Ch. 30/17)

D. Short-Run Economic Fluctuations

9. Aggregate Demand and Aggregate Supply (Ch. 33/20)
10. The Influence of Monetary and Fiscal Policy on Aggregate Demand (Ch. 34/21)
11. The Short-Run Trade-off between Inflation and Unemployment (Ch. 35/22)

E. The Macroeconomics of Open Economies

12. Open-Economy Macroeconomics: Basic Concepts (Ch. 31/18)
13. A Macroeconomic Theory of the Open Economy (Ch. 32/19)