

# BOSTON COLLEGE

CHESTNUT HILL, MASSACHUSETTS 02467-3859

## Principles of Macroeconomics

EC 132.08 and EC 132.09

Spring 2009

### INSTRUCTOR

Andrei Zlate  
Office: 462 H, 21 Campanella Way  
Email: [zlate@bc.edu](mailto:zlate@bc.edu)  
Phone: 617-552-6271

### CLASS MEETINGS

Fulton 220  
M, W, F, 1:00 – 1:50 p.m. (EC 132.08)  
M, W, F, 2:00 – 2:50 p.m. (EC 132.09)

### OFFICE HOURS

Wednesdays, 3 – 5 p.m. or by appointment.

### TEXTBOOK

Samuelson, Paul A. and Nordhaus, William D. *Macroeconomics*, 18<sup>th</sup> ed., 2004 (paperback), or *Economics*, 18<sup>th</sup> ed., 2004 (hardcover).

### COURSE DESCRIPTION

This is an introductory course in Macroeconomics. It covers topics such as national income and employment, economic fluctuations, monetary and fiscal policy, inflation, growth, and international aspects of macroeconomic policy. The course is required for the economics major and for CSOM students, and it fulfills the social sciences core requirement.

I assume some previous knowledge of Microeconomics concepts, and we will have a quick review during the first lecture. Chapters 1-3 of the textbook are a useful reminder; please see me at office hours if you have any questions regarding them.

### COURSE REQUIREMENTS

**(1) There will be two midterms** (on Wednesday, February 18 and Monday, March 30, each accounting for 25% of the final grade) **and a final exam**<sup>1</sup> (accounting for 40% of the final grade). There will be no make-up exams for either of the midterms or for the final. Please let me know in advance if serious illness or an exceptional personal matter will prevent you from taking one of the midterms. An unexcused absence from an exam will result in a score of zero.

**(2) Homework performance, attendance and participation will account for the remaining 10% of the final grade.** Problem sets will be handed out in class on a regular basis. The completed homework should be submitted on the due date at the beginning of each class – late homework will not be accepted. You may work together on the problem sets, but you cannot simply copy the work from someone else. If it is discovered that you have been copying someone else's work then both parties involved will fail the corresponding assignments.

**(3) An educational visit to the Federal Reserve Bank of Boston is part of the class participation requirement.** The tour is intended to provide an overview of the Federal Reserve System and to outline its role of conducting monetary policy. Those students that cannot attend the visit due to time conflicts can earn the same amount of credit through an alternative assignment.

---

<sup>1</sup> The final exam will take place on Wednesday, May 6 at 9:00 a.m. for EC 132.08; and on Monday, May 11 at 9:00 a.m. for EC 132.09.

**(4) Class attendance is mandatory, and active class participation is strongly encouraged.** Class participation will help you gain a better understanding of the course topics; it will also be taken into account if your final course grade is on the border. Please see me if you have questions about this policy.

**(5) You are expected to read the assigned materials ahead of each class meeting.** This will allow you to participate and to gain a better understanding of the topics discussed. The textbook chapters for each class are indicated in the tentative schedule listed below. (The chapter numbers differ according to whether you use the paperback or the hardcover edition; the content is exactly the same.)

### ACADEMIC INTEGRITY

Your work on homework assignments and exams should be your own. Please review the academic integrity policy of Boston College at: <http://www.bc.edu/integrity>.

### TENTATIVE SCHEDULE

I reserve the right to change this schedule as I see necessary:

Date	Topics	Paperback Readings	Hardcover Readings
Jan. 14	No class.		
Jan. 16	<b>Introduction:</b> Fundamentals of economics; Basic elements of supply and demand. ( <i>See Handout</i> )	Ch. 1, 3	Ch. 1, 3
Jan. 19	No class – Martin Luther King Day.		
Jan. 21	<b>Overview of Macroeconomics:</b> Objectives and instruments.	Ch. 4 A	Ch. 20 A
Jan. 23	<b>Measuring Economic Activity (I):</b> GDP and national accounts; measurement through the flow-of-products and flow-of-costs; double counting and value added.	Ch. 5	Ch. 21
Jan. 26	<b>Measuring Economic Activity (II):</b> GDP components; disposable income; saving and investment. ( <i>See Handout</i> )	Ch. 5	Ch. 21
Jan. 28	<b>Measuring Economic Activity (III):</b> Nominal vs. real GDP; price indexes and inflation.	Ch. 5	Ch. 21
Jan. 30	No class.		
Feb. 2	<b>Aggregate Supply and Demand:</b> Aggregate supply and demand; macroeconomic equilibrium. <b>Foundations of Aggregate Demand (AD):</b> Aggregate demand; factors affecting aggregate demand.	Ch. 4 B Ch. 7 B	Ch. 20 B Ch. 23 B
Feb. 4	<b>Foundations of Aggregate Supply (AS):</b> Determinants of AS; short vs. long run; The Keynesian vs. Classical schools.	Ch. 15 A Ch. 17 A	Ch. 31 A Ch. 33 A
Feb. 6	<b>Consumption and Saving:</b> Consumption, income and saving; national consumption behavior; marginal propensities to consume and save (MPC and MPS).	Ch. 6 A	Ch. 22 A
Feb. 9	<b>The Multiplier Model:</b> Savings and investment; total expenditures.	Ch. 8 A	Ch. 24 A
Feb. 11	<b>The Multiplier Model:</b> The investment and government spending multipliers.	Ch. 8 A	Ch. 24 A
Feb. 13	<b>Fiscal Policy in the Multiplier Model:</b> The tax and transfer multipliers.	Ch. 8 B	Ch. 24 B
Feb. 16	Review before Midterm Exam 1 ( <i>See Handout</i> )		
Feb. 18	<b>Midterm Exam 1</b>		
Feb. 20	Discussion of Midterm Exam 1		
Feb. 23	<b>Open Economy – Foreign Trade</b> Net exports and output; the marginal propensity to import (MPM); the spending multiplier in an open economy.	Ch. 14 A	Ch. 30 A

Date	Topics	Paperback Readings	Hardcover Readings
Feb. 25	<b>Financial Markets and Money (I):</b> Functions of the financial system; financial intermediaries; financial assets; nominal vs. real interest rates; present value of assets; the inverse link between interest rates and asset prices.	Ch. 9 A, B	Ch. 25 A, B
Feb. 27	<b>Financial Markets and Money (II):</b> Monetary aggregates (M1 and M2); banking and money.	Ch. 9 C, D	Ch. 25 C, D
Mar. 2-6	No classes, Spring Break.		
Mar. 9	<b>Financial Markets and Money (III):</b> Banking and the supply of money: the reserve requirement ratio and the money multiplier; the stock market: rates of return vs. risk.	Ch. 9 C, D	Ch. 25 C, D
Mar. 11	<b>Central Banking and Monetary Policy (I):</b> The Federal Reserve System; three monetary policy tools: open market operations, discount rate lending, reserve requirements; monetary policy in the open economy (sterilization).	Ch. 10 A	Ch. 26 A
Mar. 13	<b>Central Banking and Monetary Policy (II):</b> The effects of money on output and prices: the monetary transmission mechanism, monetary policy in AD-AS, monetary effects in the long run (money neutrality).	Ch. 10 B	Ch. 26 B
Mar. 16	<b>Business Cycles</b> Peaks and troughs; sources of business cycles. ( <i>See Handout</i> )	Ch. 7 A	Ch. 23 A
Mar. 18	<b>Unemployment:</b> Measurement, Okun's law, types of unemployment, wage rigidity and cyclical (involuntary) unemployment.	Ch. 15 B	Ch. 31 B
Mar. 20	<b>Inflation (I):</b> Definition, types, the liquidity trap, economic impact, the optimal inflation rate. <b>Trip to the Boston Fed (4-6 pm)</b>	Ch. 16 A	Ch. 32 A
Mar. 23	<b>Inflation (II):</b> The Phillips curve: short run vs. long run.	Ch. 16 B, C	Ch. 32 B, C
Mar. 25	<b>Inflation (III):</b> The Phillips curve; prices in AD-AS, sources of inflation.	Ch. 16 B, C	Ch. 32 B, C
Mar. 27	Review before Midterm Exam 2 ( <i>See Handout</i> )		
Mar. 30	<b>Midterm Exam 2</b>		
Apr. 1	Discussion of Midterm Exam 2		
Apr. 3	<b>Exchange Rates and the Int'l Financial System (I):</b> Trade openness; the balance of international payments.	Ch. 13 A	Ch. 29 A
Apr. 6	<b>Exchange Rates and the Int'l Financial System (II):</b> Foreign exchange rates; the foreign exchange market.	Ch. 13 B	Ch. 29 B
Apr. 8	<b>Exchange Rates and the Int'l Financial System (III):</b> Purchasing power parity; fixed vs. flexible exchange rates; intervention to defend a currency peg; speculative attacks.	Ch. 13 B, C	Ch. 29 B, C
Apr. 9-13	No classes, Easter Break.		
Apr. 15	<b>Open-Economy Macroeconomics (I):</b> Macroeconomic policy and the exchange-rate system (fixed vs. flexible exchange rates).	Ch. 14 A	Ch. 30 A
Apr. 17	<b>Open-Economy Macroeconomics (II):</b> Saving and investment in the closed and open economy.	Ch. 14 B	Ch. 30 B
Apr. 20	No class, Patriot's Day.		
Apr. 22	TBA		
Apr. 24	Review Session 1 ( <i>See Handout</i> )		
Apr. 27	Review Session 2		
Apr. 29	Review Session 3		
May 6	<b>EC 132.08 Final Exam, 9:00 a.m.</b>		
May 11	<b>EC 132.09 Final Exam, 9:00 a.m.</b>		