

## Principles of Macroeconomics

### Instructor Information

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### Course Information

Meeting Place: SHB 139 TUTH 2:00-3.20 PM

Course Number: ECO 234-07

CID: 4746

### Course Content

Macroeconomics is the study of the aggregate economic activity. The main idea of the course is to provide you with the tools and knowledge to analyze macroeconomic policy (i.e. monetary and fiscal policy). You will develop economic intuition and start thinking like an economist. In some cases, we will develop simple economic models with microeconomic fundamentals to teach you the way the economy works. The main idea of the course is not to provide you with lots of facts that you will have to memorize or that will be soon outdated. Rather, the course will teach you applied techniques that you can use for many years. Economics like all social sciences has different schools of thought. In this class, I will teach you the main schools and their approach to the most relevant macroeconomics problems.

At the end of the semester you will be able to

- A) Understand how economic well-being is measured for the whole economy. We will look at the two most important measures: GDP and Unemployment.
- B) Understand the determinants of economic growth. In order to make the economy grow faster we need to know what determines its growth.
- C) Understand the functions of Federal Reserve and its impact on the economy. The Federal Reserve is the most important financial institution in the world.



## Attendance

I will take attendance starting on the first day of class by university regulations. However, attendance for extra points will start on Thursday August 27<sup>th</sup> 2009. In order for your presence to count as attendance you have to stay for the whole class time.

Attendance is important but not required. I believe that you will learn more if you come to class. Therefore, **if you do not miss any classes, you will receive a bonus of 3 points out of in your final grade. If you only miss one class you will receive a bonus of 2 points and if you miss two classes you will only receive 1 extra point.** For example, imagine your final grade was 82 after all homeworks, exams and quizzes. If you did not miss any class then I would add 3 points for a final grade after attendance of 85 and a letter grade of A.

**The only valid excuse for an absence not to be counted is to present a doctor's note saying that you were ill during the days of the class.**

Finally, you will also get extra points for NOT coming to class. **If you only come to three classes or less you will get 3 extra points.** Not coming to class implies not showing up at all. If you come and leave early then it is counted as an absence but it is not counted as "not coming" to class. However, if you decide to not come to class or leave early you do so in the understanding that you are waving your right to ask me questions about the lecture you missed.

Note that you are not required to attend class but if you decide to attend class you must comply with the classroom rules.

## Crossword Puzzles

You can also get extra points in the **partial exams** by doing the crossword puzzles. The crossword puzzle will be assigned before each partial exam and gives you the opportunity to increase your grade in the upcoming exam. You will have around ten days to do it and you can get up to five extra points in the partial exam.

## Other Extra Points

During the semester you will have opportunity to gain one extra point in your final grade by undertaking two activities that I will assign (each activity gives you half extra point).

## Final Numerical and Letter Grade.

The final numerical grade is calculated as follows:

$$\begin{aligned} & (\text{Homework Average without the lowest grade}) \times 0.15 \\ & \quad + \\ & (\text{Quiz Average without the lowest grade}) \times 0.1 \\ & \quad + \\ & (\text{Highest Midterm Grade}) \times 0.3 \\ & \quad + \\ & (\text{Second Highest Midterm Grade}) \times 0.25 \\ & \quad + \\ & (\text{Third Highest Midterm Grade}) \times 0.2 \\ & \quad + \\ & \text{Attendance Points (if any)} \\ & \quad + \\ & \text{Extra Points (if any)} \\ & \text{-----} \\ & \text{Final Numerical Grade} \end{aligned}$$

Once I obtain the final numerical I will assign a letter grade using the following table. Please note that there is **no curve in the final numerical grade**.

Final Numerical Grade	Final Letter Grade
85 to 100	A
75 to 84	B
65 to 74	C
55 to 64	D
Less than 55	F

## Grade Calculator

I understand that grades are very important. In Blackboard there is a link that will take you to a grade calculator that I have developed for the class. In this calculator you can input the grades of each homework, quiz and midterm and it will compute your final numerical and letter grade. Clearly, you do not know what grades you have in some items because you have not done in those cases just input an expected grade (that is a grade you think you can make). This is a tool to help you figure out how you are doing in the class and the find out what grades you need to get to obtain certain letter grade.

## **Important Dates**

Exam I	September 22 <sup>th</sup>
Exam II	October 27 <sup>th</sup>
Exam III	December 8 <sup>th</sup>
Final Exam	December 17 <sup>th</sup> 2:00 to 4:00 PM

## **Class record (day-to-day)**

I will post on the class website a record of the main topics covered each class. This should help you guide you throughout the semester.

## **Recommended study time and other issues.**

In order to pass this class you will most likely need to devote at least 60 minutes of studying per week, not including homework time. IT IS NOT ENOUGH TO COME TO CLASS, you also need to study on your own during the week. Attendance is a necessary but NOT a sufficient condition to pass the class.

In order to prepare for the exams you need to do the homeworks, solve the practice tests, and study the class notes and the textbook. Please, note that it is NOT enough to ONLY study the textbook.

## **Email Policy**

During the semester I will be sending emails to the students in the class. The emails are sent to your SHSU account, it is YOUR responsibility to make sure that you have a working SHSU email.

I am always glad to receive email from my students. When you send me an email please help me by:

- 1) Putting your first and last name, class name and meeting time
- 2) If you are asking a question about a topic covered in class try to be specific.

Finally, I will try to answer emails as soon as I can but you have to understand that sometimes I am unable to do so (specially during weekends).

## **Classroom Behavior**

Disrespectful and disruptive behavior toward me or classmates will not be tolerated at all. Please use common sense, if I consider that your behavior is not appropriate I can ask you to leave the classroom or lower your grade. Please remember to silence your cell phones. If you are texting do it in a way that does not create noise and does not bother me or other students. If you want to use your laptop you have to sit at the end so that other people are not distracted by your computer. If you leave the classroom before the lecture is over it will be counted as an absence. I want to create a class environment that promotes learning where everyone feels comfortable. Therefore, please be patient and courteous to other students when they ask a question or make a statement, even when the subject may be obvious to you.

## CLASS CALENDAR

Tuesday August 25	Thursday August 27	Tuesday September 1	Thursday September 3	Tuesday September 8	Thursday September 10
First Day of Class		Homework 1 Assigned	Quiz 1	Homework 1 Due	Quiz 2 Homework 2 Assigned  Crossword Puzzle Assigned
Tuesday September 15	Thursday September 17	Tuesday September 22	Thursday September 24	Tuesday September 29	Thursday October 1
Practice Midterm Posted on Blackboard	Homework 2 Due	EXAM I  Crossword Puzzle Due		Homework 3 Assigned	Quiz 3
Tuesday October 6	Thursday October 8	Tuesday October 13	Thursday October 15	Tuesday October 20	Thursday October 22
Homework 3 Due	Quiz 4	Homework 4 Assigned	Crossword Puzzle Assigned	Homework 4 Due  Practice Midterm Posted on Blackboard	
Tuesday October 27	Thursday October 29	Tuesday November 3	Thursday November 5	Tuesday November 10	Thursday November 12
EXAM II  Crossword Puzzle Due		Homework 5 Assigned	Quiz 5	Homework 5 Due	Homework 6 Assigned
Tuesday November 17	Thursday November 19	Tuesday November 24	Tuesday December 1	Thursday December 3	Tuesday December 8
Quiz 6	Homework 6 Due  Crossword Puzzle Assigned		Practice Midterm Posted on Blackboard		EXAM III  Crossword Puzzle Due
Thursday December 10	Thursday December 17				
Last Day of Class Review for Final Exam	Final Exam 2:00-4:00 PM				

# Outline

## **Topic I. Introduction to Macroeconomics.**

1. What is Macroeconomics?
2. The importance of macroeconomic analysis.
3. The three basic economic questions.

## **Topic II. National Product and National Accounts.**

**Textbook Chapter: 23**

1. Income and expenditure
2. Gross domestic product.
3. Why is GDP important?
4. Consumption, Investment, Government Purchases and Net Exports
5. Net capital outflow and net exports
6. Balance of payments, trade deficit, capital account and current account
7. Nominal vs Real GDP
8. GDP Deflator

## **Topic III. Measuring the Cost of Living**

**Textbook Chapter: 24**

1. The consumer price index
2. Adjusting for inflation
3. Nominal vs. Real GDP revisited.

## **Topic IV. Long-run Economics Growth**

**Textbook Chapter: 25**

1. Comparison across countries
2. Production function.
3. Productivity.
4. Technological change
5. Savings and investment
6. Endogenous growth models.
7. Convergence among countries.
8. Growth policies.

## **Topic V. Economic Growth and the Financial System.**

**Textbook Chapter: 26**

1. Financial institutions in the U.S.
2. Types of financial markets and intermediaries
3. Savings and investment in the national accounts.
4. Market for loanable funds
5. Crowding out effect and Ricardian equivalence

## **Topic VI. Unemployment.**

**Textbook Chapter: 28**

4. Unemployment types.
5. Models of unemployment.
6. Unemployment duration.
7. Minimum wage, unions and unemployment compensation.
8. Explanation of unemployment.

**Topic VII. Money Supply and Central Bank.****Textbook Chapter: 29**

1. Fiat money.
2. Money creation mechanism.
3. Control over the money supply.
4. Monetary policy.
5. Money supply.
6. Money demand.
7. Equilibrium in the money market.
8. Interest rate.
9. Taylor rule.

**Topic VIII. Inflation and Monetary policy.****Textbook Chapter: 30 and 35**

1. Definition and types of inflation.
2. Phillips curve.
3. Function of prices.
4. Inflation as a tax.
5. Inflation temptation and inefficiencies.
6. Seigniorage and its limits.
7. Lucas critique.
8. Quantity of money equation.

**Topic IX. Government and Fiscal Policy.****(no textbook chapter for this topic use handout instead)**

1. Taxes.
2. Laffer Curve
3. Fiscal policy
4. Aggregate demand and supply with fiscal policy.
5. Government budget constraint.
6. Deficit and public debt.
7. Crowding out.
8. Ricardian equivalence.
9. Public debt instruments.
10. Total and primary deficit.
11. Public debt burden
12. Some unpleasant monetarist arithmetic.

**Topic X. Macroeconomics of an Open Economy.****Textbook Chapter: 31 and 32**

1. Balance of payments.
2. Exchange rates.
3. Real exchange rate.
4. Savings and Investment.
5. Exchange rate systems: fixed, floating and currency boards.
6. Purchasing power parity.
7. Determinants of the exchange rate in the long and short-run.

**Topic XI. Aggregate Demand and Aggregate Supply.****Textbook Chapter: 33**

1. Aggregate demand
2. Long and short run aggregate supply.
3. Macroeconomic equilibrium in the short and long run.
4. Recessions and expansions.
5. Changes in aggregate demand and supply.

**Topic XII. Monetary and Fiscal Policy in the Aggregate Demand and Aggregate Supply model**

**Textbook Chapter: 34**

1. Monetary Policy and Aggregate Demand.
2. Liquidity preference
3. Slope of the aggregate demand curve
4. Interest rates and changes in the money supply
5. Fiscal policy and the Aggregate Demand
6. Government purchases
7. Multiplier effect

**Topic XIII. Special Topics** (no textbook chapter for this topic use handout instead)

1. Health care system in the U.S.
2. Social Security: pay-as-you-go and fully funded system.