ECONOMICS 302
INTERMEDIATE MACROECONOMICS
Spring 2007

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Office Hours: M 1:45-3:00; W 2:30-3:45 and by appointment.

Available in Orange Bookstore -- earlier editions will not suffice.

Course Description:

Economics 302 is a one-semester course in intermediate macroeconomics and is a required course for all economics majors. The prerequisites for the course are ECN 203. Students who have questions about course sequencing should meet with an economics advisor. Calculus will not be used, but a reasonably good understanding of algebra (and graphs) is assumed.

Macroeconomics is the study of interrelationships among economic aggregates, including employment, the inflation rate, consumption, investment and gross or net domestic product. The goal of this course is to explain the institutions that shape both the modern market economy and modern global economy, and to develop tools for analyzing the performance of these economies over time. Moving through the text at the rate of about a chapter every three lectures (slightly less time for less difficult chapters and slightly more time for more difficult chapters), I hope to cover the first seven chapters in their entirety. The readings will be supplemented by discussion of topics of current concern to financial markets in the global economy.

Grading:

This course is on the Syracuse University Blackboard System. Students can access the Blackboard System by typing in the following URL—
[http://blackboard.syr.edu](http://blackboard.syr.edu)
and then logging in with their NetID and password. Students are responsible for checking for announcements every Thursday evening, although frequently there will be no announcements.

Student grades will be determined by performance on three problem sets, two mid-term examinations and a final exam. The highest two grades on the problem sets will count 15% each (but please note that in the past students have done better on the earlier problem sets). The importance of providing comprehensive answers to the problem sets before the next test necessitates the implementation of absolute deadlines for each problem set, after which no work can be accepted. In fact, there will be two deadlines for each problem set, but no student can hand in any problem set more than once (the penalty is an F for the course). Students who hand in their work before the first deadline, will receive corrected problem sets before each test. Students who miss the first deadline will not incur a grading penalty, but will not get their problem sets back before the succeeding test. Students who miss the second (absolute) deadline, defined by an exact time during the day, will not have their work graded. There will be no exceptions to this rule. Students will be given about two weeks to complete each problem set, and will be told the due dates at least one week beforehand, both in class and through a Blackboard announcement. Although students may work together to
come up with answers, each submitted assignment must represent the intellectual effort of the individual student. Assignments handed in by a team will not be graded, nor will identically formatted answers printed out several times, or assignments cut and pasted in any way by word processor.

Each of the mid-term examinations will count 20%, while the final will be worth 30%. The mid-term examinations will take place on class days (but not necessarily class periods), while the final will be given in the final examination period. Programmable calculators are NOT allowed during tests. Students requiring special circumstances to take examinations will be accommodated. Students who miss tests without informing the instructor beforehand or without a valid reason will be allowed to take make-up tests, but these will be substantially more difficult than the test that was missed.

Students should recognize that the work as presented is not crammmable. This means that there is not a book somewhere in the library that mimics the classroom presentation. Rather the classroom lectures complement the text by moving from the simple to the complex in a way that is meant to enlighten the student who attends class consistently. Students who attend class consistently (catching up on missed days by getting the class notes from a friend) and do the assignments should expect a high grade; students who attend sporadically or have incomplete notes should not expect to pass the course.

Readings:


   The chapter presents an overview of macroeconomics with definitions of important concepts such as GDP, short-run and long-run. Chapter lays out the “Big Three” concepts of macroeconomics and has a section on macroeconomics at the extremes. It concludes by discussing stabilization policy and the “internationalization” of macroeconomics.


   The circular flow of income is introduced and an algebraic analysis of the circular flow is started using the “Magic Equation”. The components of the National Income and Product Accounts are studied. The difference between the “old” implicit GDP deflator and the “new” chain-weighted GDP deflator is discussed. The chapter concludes with a discussion of the measurement of unemployment.


   Gordon introduces the concept of equilibrium in the goods market as the point at which income equals planned expenditures. Thus, if unplanned expenditures are nonzero, the goods market is out of equilibrium. The consumption function is introduced and its importance in the equilibrium condition is explained. The “multiplier” effect of exogenous changes in aggregates such as planned investment, government spending, and net exports is described. The importance of interest rates in the consumption decisions of households and the investment decisions of firms is described. Finally, the IS curve is derived as the locus of points in (Y,r)-space at which the goods market is in equilibrium.
4. Gordon, Chapter 4: Monetary and Fiscal Policy in the IS-LM Model, pp. 94-129.

Gordon introduces the money market generally and the role of the money in a modern macroeconomy. The LM curve is derived as the locus of points in \((Y,r)\)-space at which the money market is in equilibrium. Together with the IS curve, a complete equilibrium in \((Y,r)\)-space can now be described. The possibility of fiscal expansion crowding out investment is discussed. The chapter ends with a discussion of the strong and weak effects of monetary and fiscal policy.


Gordon begins with a discussion of the pervasive effects of a government budget deficit. He distinguishes between the structural and cyclical components of the budget deficit and discusses the automatic stabilization that has been built into the cyclical component as well as the impact of discretionary fiscal policy on the structural component. Gordon concludes the chapter with a discussion of national saving.


The balance of payments is introduced as a way of monitoring pressure on a country’s reserves of foreign exchange. Foreign exchange rates are discussed and their relationship to the domestic interest rate is analyzed. The ramifications of the two main exchange rate regimes, fixed and flexible, for monetary and fiscal policy are discussed in the cases of perfect and imperfect capital mobility.


Gordon allows prices to vary for the first time so that aggregate supply and demand curves for the modern macroeconomy can be defined. The determination of wage rates in the labor market is explained. Finally, the discussion turns to the contributions of the Keynesian Revolution in explaining the failure of self-correction during prolonged depression.