

School of Economics and Finance

## **ECON 305 Macroeconomics: Growth, Cycles and Sustainability**

Trimester One 2007

### **COURSE OUTLINE**

---

#### **Contact Details**

Dr Geoff Bertram (course co-ordinator) [geoff.bertram@vuw.ac.nz](mailto:geoff.bertram@vuw.ac.nz) RH 423 (ext. 5814)

Dr Kun-Hong Kim [kunhong.kim@vuw.ac.nz](mailto:kunhong.kim@vuw.ac.nz) RH 425 (ext 5786)

#### **Class Times and Room Numbers**

**Lectures:** Tuesday 4.40-5.30 pm in RH LT3  
Wednesday 4.40-5.30 pm in RH LT3  
Friday 4.40-5.30 pm in RH LT3

**Tutorials:** There will be four tutorial groups, meeting weekly on Wednesday and Thursday at four of the following times and rooms. A survey will be carried out at the first class to allocate students into groups and determine which times are finally used.

Wednesday 3.40-4.30 am in RLWY 126  
Thursday 9.30-10.20 am in RLWY 127  
Thursday 10.30-11.20 am in RLWY 127  
Thursday 11.30am -12.20 pm in GB G07  
Thursday 2.40-3.30 pm in RH G03

**Terms Tests:** Dates and times to be arranged. One just after Easter break, and one in the second-to-last week of the trimester.

(Note that you must sit – not pass - both tests to get Terms).

**Final Examination:** in the period 4 – 29 June.

#### **Course Objectives**

The course aims to introduce students to modern developments in macroeconomic theory and to develop the ability to present and discuss this material professionally. Command of the material will be assessed primarily by means of two written one-hour tests during the course, and in the final three-hour examination.

The tutorial programme provides a supplementary assessment procedure, but is aimed mainly to develop students' understanding of the material and ability to discuss and present their answers to questions and problems in a professional environment.

In each of the weekly tutorial sessions, with the exception of the first tutorial, the discussion will be led by class members, under the guidance of the tutor. A roster of dates for presentations will be drawn up at the first tutorial, and from time to time after that. All tutorial participants are expected to prepare for each tutorial and to be in a position to discuss the topic with the student presenters, but only the presenters will be required to submit their individual written answers for assessment.

Each student will have three tutorial assignments marked, at least one from each half of the course. In order for their assignment answers to be marked, students must have participated in the relevant oral presentation. Assignment answers will be covered in tutorials. So-called "model answers" will not be provided. Assignment topics will be posted on Blackboard.

### **Course Content**

This course assumes a basic knowledge of the macroeconomic models taught in ECON 202, and moves on to consider formal market-clearing ("Walrasian") models, dynamic macroeconomic theories of growth and business cycles, systematic discussion of the microeconomic foundations of new-Keynesian macroeconomics, stability issues, and open-economy modeling.

The first half of the course provides an introduction to closed-economy and open-economy market-clearing macro models, real business cycle theories and models, and theories of economic growth. The aim here is to make students familiar with major theoretical developments in macroeconomics during the past two decades, flowing from the so-called "new-classical" or "real business cycle" perspective.

The second half discusses new-Keynesian macroeconomic models. Key issues in this area will be price and wage stickiness; the consequences of assuming imperfect competition and quantity rationing in goods and labour markets; explanations for unemployment; stability issues and transition dynamics in macroeconomic models; and some introductory open-economy modeling.

### **Expected Workload**

Lecture attendance three hours per week; tutorial preparation and participation six hours per week; reading textbook and other material, writing-up, and revising for tests etc, eleven hours per week. Total around 20 hours per week. These are guidelines only; you should expect your performance in the course to be positively related to the amount of time and effort you put in.

### **Group Work**

Students are encouraged to discuss the tutorial assignments amongst themselves in advance of each session, and those scheduled to present are asked to work out an agreed order of speaking and allocation of presentation tasks. Each student's presentation, and the written

answers submitted at the end of the session, must be their own work. Simply copying answers from others in working on the assignment will be treated as plagiarism.

### **Assessment Requirements**

Students' final grades will taken as the greater of:

**EITHER:**        tutorial assignments (20%)  
                         two one-hour tests (15% each)  
                         final examination (50%)

**OR:**                final examination (100%)

### **Penalties**

Work submitted late will not be marked unless a prior arrangement has been made with the Course Coordinator, Dr Bertram.

### **Mandatory Course Requirements**

Terms (“mandatory course requirements”) are satisfied by students completing in writing, and verbally presenting, three tutorial assignments to a satisfactory standard, and sitting both tests.

### **Communication of Additional Information**

Additional information will be posted on Blackboard.

### **Readings**

There are two prescribed texts for the course which students are expected to purchase:

Williamson, Stephen D., *Macroeconomics* (second edition), Pearson Addison Wesley 2005.

Carlin, W and Soskice, D *Macroeconomics: Imperfections, Institutions and Policies* Oxford: Oxford University Press, 2006.

Useful supplementary texts are:

Bénassy, Jean-Pascal, *The Macroeconomics of Imperfect Competition and Nonclearing Markets: a Dynamic General Equilibrium Approach*, MIT Press 2002 (challenging)

Blanchard, Olivier, *Macroeconomics* (third edition), Prentice-Hall 2003 (this was last year's ECON 202 textbook so many of you will have copies to which you are encouraged to refer back).

Heijdra, B. and Van der Ploeg, F., *Foundations of Modern Macroeconomics*, Oxford University Press 2002 (strongly recommended to students with good maths as an excellent up-to-date treatment of the course material, which would be the textbook if it were a little less hard going)

Scarth, W., *Macroeconomics: An Introduction to Advanced Methods*, second edition, Dryden Press, 1995 (a difficult but rewarding advanced textbook).

Farmer, Roger E A, *Macroeconomics* (second edition), South-Western, 2002.

Additional reading will be prescribed for each topic from other books and from the journal literature.

### **Week 1: Introduction and Measurement Issues**

Williamson, Stephen D., *Macroeconomics* (second edition), Addison Wesley, 2005, Chs. 1, 2, 3.

Barro, Robert and Vittorio Grilli, *European Macroeconomics*, Macmillan, 1994, Ch. 1 (pp.1-21).

Farmer, Roger E A, *Macroeconomics* (second edition), South-Western, 2002, Ch. 3.

Lucas, R.E., "Understanding Business Cycles", in Lucas, R E, *Studies in Business-Cycle Theory*, Cambridge, MIT Press, 1981, pp. 215-239 (ss. 1, 2).

Kim, Kunhong, Robert A. Buckle and Viv B. Hall, "Key Features of New Zealand Business Cycles", *The Economic Record*, Vol. 70, March 1994, pp. 56-72.

Crosby, M. and G. Otto, "Real Business Cycle Models: An Introduction", *The Australian Economic Review*, 3<sup>rd</sup> Quarter 1995, pp. 55-70.

### **Weeks 1 and 2: A Static Optimisation – Market Clearing Model of the Macroeconomy**

Williamson (2005), Chs. 4, 5.

### **Weeks 2, 3, 4: An Intertemporal Optimisation – Market Clearing Model of the Macroeconomy**

Williamson (2005), Chs. 8, 9.

### **Weeks 4, 5: A Monetary Intertemporal Model**

Williamson (2005), Ch. 10.

McCandless, G. and W. Weber, "Some Monetary Facts", *Federal Reserve Bank of Minneapolis Quarterly Review*, Summer 1995, pp. 2-11.

### **Week 5: Market Clearing Models of the Business Cycle**

Williamson (2005), Ch. 11.

Lucas, R.E., "Understanding Business Cycles", in Lucas, R E, *Studies in Business-Cycle Theory*, Cambridge, MIT Press, 1981, pp. 215-239.

Crosby, M. and G. Otto, "Real Business Cycle Models: An Introduction", *The Australian Economic Review*, 3<sup>rd</sup> Quarter 1995, pp. 55-70.

### **Weeks 5, 6: The International Economy**

Williamson (2005), Ch. 13.

Kim, Kunhong, Viv B. Hall, and Robert A. Buckle, "Consumption-smoothing in a small, cyclically volatile open economy: Evidence from New Zealand", *Journal of International Money and Finance*, 25, December 2006, pp. 1277-1295.

Otto, Glenn, "Can an Intertemporal Model Explain Australia's Current Account Deficit?", *The Australian Economic Review*, 36 (3), September 2003, pp. 350-359

Milesi-Ferretti, G. and A. Razin, "Persistent Current Account Deficits: a Warning Signal?", *International Journal of Finance and Economics*, Vol. 1, 1996, pp. 161-181

Collins, S., F.N. De Simone, and D. Hargreaves, "The Current Account Balance: An Analysis of the Issues", *Reserve Bank of New Zealand Bulletin*, Vol. 61 No. 1, March 1998, pp. 15-34. <http://www.rbnz.govt.nz/research/bulletin>

### **Week 6: Economic Growth**

Williamson (2005), Chs. 6, 7.

Young, A., "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience", *Quarterly Journal of Economics*, 110, 1995, pp. 641-680.

Bollard, Alan, "New Zealand's Potential Growth Rate", Address to Canterbury Employers' Chamber of Commerce, 28 January 2005. <http://www.rbnz.govt.nz/speeches>

### **Weeks 7 – 12 (Geoff Bertram's section) to come**

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

## **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.