

School of Economics and Finance

ECON 202 MACROECONOMICS

Trimester Two 2007

COURSE OUTLINE

Contact Details

Contact with the lecturers is best initiated by email or through making an appointment.

The Course Coordinator is: Professor Viv Hall

Room: RH 401 in Rutherford House, 23 Lambton Quay

Telephone: (04) 463 5081

Email: viv.hall@vuw.ac.nz

The lectures will be presented by:

Professor Viv Hall, RH 401, and

Dr Geoff Bertram, RH 423, geoff.bertram@vuw.ac.nz, telephone (04) 463 5814

Lecture Times and Location

There will be three fifty-minute lectures per week:

Monday and Wednesday: 1.40 pm – 2.30 pm

Thursday: 2.40 pm – 3.30 pm

Rutherford House Lecture Theatre 1 (RH LT1)

Lecture slides/overheads and other course material will be available from Blackboard

Pre-requisite: ECON 140

Note: An introductory mathematics course such as QUAN 111 or QUAN 103 will be of considerable assistance for this course - see p 7 pf SEF Prospectus 2007 for other possibilities.

Course Content

The central focus of this course is the development of an open economy macroeconomic model, and the application of this model to the analysis of open economy macroeconomic issues and policy. ECON 202 provides a more challenging consideration of some of the macroeconomic topics introduced in ECON 140, together with significant new material and perspectives. More specifically, coverage includes the interdependence of macroeconomic activity and markets, the roles of expectations variables, the open economy, the significance of international events, exchange rates, inflation, unemployment and the role of policy. The course also introduces dynamics associated with output adjustments, exchange rates, price and wage adjustments, and the effects of changes in wealth, although more detailed analysis of these and other dynamic issues are taken up in ECON 305.

Course Objectives

The intended learning outcomes for students who complete this course include:

- (i) A basic understanding of the structure and features of a macroeconomic model;
- (ii) The ability to explain and evaluate the key characteristics of an open-economy macroeconomic model;
- (iii) An understanding of how to use the open-economy macroeconomic model of the type developed in this course to:
 - (a) evaluate how household and firm behaviour, expectations, international events and price and wage setting behaviour influence the macroeconomy;
 - (b) evaluate how government fiscal and monetary policies influence the macroeconomy;
 - (c) evaluate how fiscal and monetary policy might be designed to achieve certain macroeconomic policy objectives.

Expected Workload

ECON 202 is a 22-point course, and as VUW has designated one point = 10 hours work, expected work load would total 220 hours. If that workload were spread over 12 weeks, hours expected would average around 18 hours per week. This would involve attending classes (3 lectures plus one tutorial per week), plus reading, studying and completing assignments for approximately 14 hours per week. The 14 hours would of course vary for individual students, depending on the student's previous knowledge and understanding, and the final grade to which the student aspires.

Readings

The **text book** for this course is:

Olivier Blanchard, *Macroeconomics (4th edition)*, Pearson Prentice-Hall, 2006.

For the Lecture Topics and Chapters in Blanchard to be covered each week, see the schedule on p 6 of this Course Outline: **ECON 202 LECTURE PROGRAMME, 2007.**

For additional Blanchard material, you are encouraged to visit the textbook website at:

http://wps.prenhall.com/bp_blanchard_macro_4

Should you wish to supplement your reading from Blanchard, there are many other macroeconomic textbooks available in the library. Some examples are:

- Sloman, J and K Norris (2005), *Principles of Economics*, Pearson (introductory)
Mankiw, N. Gregory (2007), *Principles of economics*, 4th ed, Thomson South-Western (introductory)
Frank, Robert and Ben Bernanke (2001), *Principles of economics*, McGraw-Hill Irwin (introductory)
Mankiw, N. Gregory (2006), *Macroeconomics*, 6th ed, Worth (intermediate)
Blanchard, Olivier and Jeffrey Sheen (2007), *Macroeconomics Australasian Edition*, 2nd ed, Pearson Education Australia (intermediate)

Carlin, W. and D. Soskice (2005), *Macroeconomics: Imperfections, Institutions and Policies*, Oxford University Press (more challenging)
Williamson, Stephen D (2005), *Macroeconomics*, 2nd ed, Addison Wesley (more challenging)

For a revision of the mathematical and statistical skills ideally required for this course you could refer to one of:

Proffitt, Penelope, (2002), *Maths Made Easy*, Pearson Education New Zealand
Khaled, Mohammed and Penelope Proffitt (2003), *Mathematics for Business and Economics*, Pearson Education New Zealand
Clark, Megan and John A Randal (2004), *A first course in applied statistics: with applications in biology, business, and the social sciences*, Pearson Education New Zealand

You are encouraged to keep abreast of macroeconomic developments in New Zealand, as a step towards applying the material taught in this course. In this respect the following will be helpful:

Dalziel, Paul and Ralph Lattimore (2004), *The New Zealand Macroeconomy: Striving for Sustainable Growth with Equity*, 5th Ed, Oxford University Press
Mankiw, N Gregory, Debasis Bandyopadhyay and Paul Wooding (2006), *Principles of Macroeconomics in New Zealand*, Thomson Learning Australia
International Monetary Fund (2007), *New Zealand*, Staff Report for the 2007 Article IV Consultation; available from www.imf.org
National Bank of New Zealand, ANZ National Bank *Business Outlook* (published monthly), and *Quarterly Economic Forecasts* (QEF); available from www.nbnz.co.nz
New Zealand Institute of Economic Research, *Update, Quarterly Predictions*, and *Quarterly Survey of Business Opinion*, Wellington; see www.nzier.org.nz
OECD (2007), *OECD Economic Surveys: New Zealand*, April 2007, Paris, OECD; see www.oecd.org
Reserve Bank of New Zealand, *Bulletin* (published quarterly), *Monetary Policy Statement* (published four times per year); available from www.rbnz.govt.nz
Reserve Bank of New Zealand, Economics Department, *An Introduction to the Forecasting and Policy System at the Reserve Bank of New Zealand*, www.rbnz.govt.nz/research/fps
Statistics New Zealand, *Main Indicators*; see www.stats.govt.nz
The Treasurer: *The Budget Policy Statement 2007* (19 December 2006); *Fiscal Strategy Report and Budget Economic and Fiscal Update* (17 May 2007); available from www.treasury.govt.nz
Westpac (New Zealand Division), various Economic Reports, available from www.westpac.co.nz

Some other Web sites of potential interest:

The Economist; see <http://www.economist.com>
School of Economics and Finance; see <http://www.vuw.ac.nz/sef>
New Zealand Association of Economists; see <http://www.nzae.org.nz>
(These will provide links to other NZ and international economics web sites)

Assessment Requirements

Each student's final grade will come **either** from 100% of the final 3-hour exam grade, **or** from 70% of the final exam grade plus 15% of the average of your 5 best graded tutorial assignments plus 15% from the mid-course test, depending on which gives the higher final grade.

Mid-course Test

This will be held on **Wednesday 5th September** during the lecture period.

Final Examination

The Trimester Two examination period is expected to start around Friday 19th October (+/- 1 day), and finish on Saturday 10th November (+/- 1 day). The ECON 202 final examination could occur any time within this period.

Tutorials, and penalties

All students are expected to attend one tutorial per week. There will be eleven tutorials. Tutorial groups will be organised during the first week of lectures and will commence in the second week, i.e. from Tuesday, 17th July. Arrangements for expressing tutorial time preferences and for allocations will be announced in the first lecture, and posted on Blackboard.

Tutorial assignment questions will be available from Blackboard, in the week preceding each tutorial. You will be expected to complete a written answer for 6 of the 11 tutorials. These 6 will be graded and returned at the tutorial session. They must be handed in to your tutor's box on the Mezzanine floor of Rutherford House by 9.30 am on the Monday preceding that particular tutorial. **Late assignments will not be graded.** The other 5 tutorials will not require written answers but you will be expected to come to the tutorials prepared to answer questions set.

We expect you to work independently. Discussion of the assigned problems with other students is acceptable, but you should then write up your own answers to the problems. **Do not copy someone else's answers – you learn nothing that way, and your work will be penalised if we find out.**

Please do not ask tutors for help in solving the assigned problems. You should have a go first. Tutors will go over the solutions at the tutorial session. **Regular attendance at tutorials is essential, as no model answers to tutorial problems are provided.** If tutors run out of time for some of the questions, please ask them to check your answers to those problems.

You are expected to take an active part in tutorial discussion. There are various ways of doing that, e.g. by volunteering useful comments, or by answering questions put to the class (or to you specifically) by the tutor.

Mandatory Course Requirements

In addition to obtaining an overall course mark of 50% or more, you must:

1. **average at least 50% from your 5 best graded tutorial assignments** (of which there are 6). You will be advised which assignments are to be graded.

Communication of Additional Information

Communication of additional information will take place through an Announcement posted on Blackboard, or the lodging of a relevant document on Blackboard.

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.

For information on the following topics, go to the Faculty's website 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 or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or phone (04) 463 5842.

ECON 202 LECTURE PROGRAMME, 2007

Lecture No	Topic	Chapters in Blanchard 4th Edition
1	Introduction to the course; NZ and the International Economy	1, 2
2, 3	Origins and Core of Macroeconomic Ideas; Macro interdependencies	27
4	The Basics of the Goods Market	3
5, 6	The Basics of Financial Markets	4
7, 8	The Basic IS-LM Model	5
9	The Basics of Expectations	14
10	Expectations and Financial Markets	15
11	Expectations in the Goods Market	16
12	Expectations and the IS-LM Model	17
13	Transactions with the International Economy	18
14, 15	The Goods Market In an Open Economy	19
16, 17	Financial Markets In An Open Economy	20
18	Summing up, and the material ahead	As above
19	The Labour Market and Wage Setting	6
20	TEST	
21	Goods – Price Determination	6
22, 23, 24	General Equilibrium: Basics of Aggregate Supply and Demand	7
25, 26, 27	The Phillips Curve, Inflation, Disinflation and Unemployment	8, 9
28	Exchange rate adjustments and regimes	21
29	Depressions and slumps; and High Inflation	22, 23
30, 31	Should Policy Makers Be Restrained?	24
32, 33	Monetary Policy	25
34, 35	Fiscal Policy	26
36	Summing Up	As above