

School of Economics and Finance

## **ECON 202 MACROECONOMICS**

Trimester Two 2009

### **COURSE OUTLINE**

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#### **Names and 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](mailto:viv.hall@vuw.ac.nz)

Lectures will be presented by:

Dr Andrew Coleman, RH 430, [andrew.coleman@vuw.ac.nz](mailto:andrew.coleman@vuw.ac.nz), telephone 463 5233 then 8898

Professor Viv Hall, RH 401

#### **Trimester Dates**

**Teaching Period:** Monday 13 July to Friday 16 October 2009

**End of Year Study Period:** Monday 19 October to Monday 26 October 2009

**Examination Period:** Tuesday 27 October to Saturday 14 November 2009 (inclusive)

**Note: Students who enrol in courses with examinations should be able to attend an examination at the University at any time during the formal examination period.**

**Withdrawal dates:** Information available via

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

**Class Times and Room Numbers:** There will be three fifty-minute lectures per week:

Monday, Thursday and Friday: 8.30 am – 9.20 am

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 - see pp 7-8 of SEF Prospectus 2009 for other possibilities.

#### **Course Content**

ECON 202 is an intermediate level open-economy macroeconomics course, which provides a more challenging consideration of some of the macroeconomic topics introduced in ECON 140, together with significant new material and perspectives. It features applications of an open economy macroeconomic model to macroeconomic issues and policy, including the interdependence of macroeconomic activity and markets, the roles of expectations variables and other dynamic adjustment mechanisms, and the significance of international events, exchange rate regimes, inflation, and unemployment. More detailed analysis of these and other dynamic issues are taken up in ECON 305.

## Course Learning Objectives

By the end of the course, students should be able to:

1. assess the interdependent nature of key macroeconomic variables and markets, and the dynamics of responses to economic shocks
2. analyse goods and financial market behaviour in the basic IS-LM model
3. explain the role of expectations variables in financial and goods markets
4. analyse how open economy financial and goods markets operate under fixed and flexible exchange rate regimes
5. analyse the supply side of a macro-economy: the labour market, wage setting and price determination, natural rates of unemployment
6. analyse the open economy AD-AS model with natural output levels, and use it to explain the dynamics of responses to demand-side and supply-side shocks
7. explain modern open economy Phillips curves, inflation and unemployment tradeoffs, natural/potential economic growth rates, and their variations over time
8. assess the pros and cons of alternative exchange rate regimes, and explain how they provide different adjustment mechanisms for domestic and external economic shocks
9. analyse monetary and fiscal policies, and the conditions under which they should and should not be used.

## Course Delivery - Lectures

To get an initial understanding of key subject matter, you should attend all lectures.

### - Tutorials, and Penalties

All students are expected to attend one tutorial per week. There will be eleven tutorials. Allocation to tutorial groups should be completed during the first week of lectures, and the first tutorial group sessions will commence in the second week, i.e. from Tuesday, 21st July. Arrangements for allocations to tutorial groups will be posted on Blackboard and also announced in the first lecture. In the event of any difficulties with tutorial allocations, please contact Ms Alice Fong ([alice.fong@vuw.ac.nz](mailto:alice.fong@vuw.ac.nz)), RH 318.

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. You will be advised which 6 assignments are to be graded. The tutorial papers for grading must be handed in to your tutor's box on the Mezzanine floor of Rutherford House by 10.00 am on the Monday preceding that particular tutorial. They will then be graded and returned at the tutorial session for that week. **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 contribute towards answers to these questions.

Please do not ask tutors in advance for help in solving the problems assigned to be graded. We expect you to submit your own work. 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.**

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.**

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.

## 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 (5th edition)*, Pearson Prentice-Hall, 2009.**

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, 2009.**

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

<http://www.pearsonhighered.com/blanchard>

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

- Begg, David, Stanley Fischer and Rudiger Dornbusch, *Economics*, (McGraw-Hill), 9th edition, 2008 (introductory)
- Stiglitz, Joseph E and Carl E Walsh, *Economics* (W W Norton), 4th Edition (International Student Edition), 2006 (introductory)
- Mankiw, N Gregory, Debasis Bandyopadhyay and Paul Wooding (2006), *Principles of Macroeconomics in New Zealand*, Thomson Learning Australia (introductory)
- Frank, Robert and Ben Bernanke, *Principles of Economics* (McGraw Hill/Irwin), 2nd edition, 2004 (introductory)
- Mankiw, N. Gregory (2006), *Macroeconomics*, 6<sup>th</sup> ed, Worth (intermediate)
- Blanchard, Olivier and Jeffrey Sheen (2007), *Macroeconomics Australasian Edition*, 2<sup>nd</sup> ed, Pearson Education Australia (intermediate)
- Carlin, W. and D. Soskice (2005), *Macroeconomics: Imperfections, Institutions and Policies*, Oxford University Press (more challenging)
- Williamson, Stephen D (2008), *Macroeconomics*, 3rd ed, Pearson 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 (2009), *New Zealand*, Staff Report for the 2009 Article IV Consultation; available from [www.imf.org](http://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](http://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](http://www.nzier.org.nz)
- OECD (2009), *OECD Economic Surveys: New Zealand*, 16 April 2009, Paris, OECD; see [www.oecd.org/eco/surveys/nz](http://www.oecd.org/eco/surveys/nz)
- Reserve Bank of New Zealand, *Bulletin* (published quarterly), *Monetary Policy Statement* (published four times per year); available from [www.rbnz.govt.nz](http://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](http://www.rbnz.govt.nz/research/fps)
- Statistics New Zealand, *Main Indicators*; see [www.stats.govt.nz](http://www.stats.govt.nz)
- The Treasurer: *The Budget Policy Statement 2009* (18 December 2008); *Fiscal Strategy Report and Budget Economic and Fiscal Update* (28 May 2009); available from [www.treasury.govt.nz](http://www.treasury.govt.nz)
- Westpac (New Zealand Division), various Economic Reports, available from [www.westpac.co.nz](http://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 and relation to Course Learning Objectives**

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.

Preparing for and sitting the Mid-Course Test will assist the student to achieve Course Learning Objectives 2 to 4; completing all the Tutorial Assignments will assist the student to achieve Course Learning Objectives 1 to 9; preparing for and sitting the Final Exam will assist the student to achieve Course Learning Objectives 1 to 9.

*Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.*

### **Mid-course Test**

This will be held on **Thursday 10th September** during the lecture period.

### **Examinations**

The final THREE HOUR examination for this course will be scheduled at some time during the period from Tuesday 27 October to Saturday 14 November 2009.

### **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.

**For the following important information follow the links provided:**

#### **Academic Integrity and Plagiarism**

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

#### **General University Policies and Statutes**

<http://www.victoria.ac.nz/home/about/policy/academic.aspx>

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

<http://www.victoria.ac.nz/fca/studenthelp/Contactus.aspx>

#### **Manaaki Pihipihinga Programme**

[http://www.victoria.ac.nz/st\\_services/mentoring/](http://www.victoria.ac.nz/st_services/mentoring/)

## ECON 202 LECTURE PROGRAMME, 2009

Lecture No	Topic	Chapters in Blanchard 5th 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