

School of Economics and Finance

## **ECON 202 MACROECONOMICS**

Trimester Two 2010

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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 Stephen Burnell, RH 425, [stephen.burnell@vuw.ac.nz](mailto:stephen.burnell@vuw.ac.nz), telephone 463 5764

Professor Viv Hall

### **Trimester Dates**

**Teaching Period:** Monday 12th July – Friday 15th October 2010

**Study Period:** Monday 18th October – Thursday 21st October 2010

**Examination Period:** Friday 22nd October – Saturday 13th November 2010 (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 from Courses:**

Your fees will be refunded if you withdraw from this course on or before 23 July 2010

The last date for withdrawal from this course is the three-quarter point of the teaching period, i.e. Friday 24 September. After that date, permission to withdraw requires the permission of the Associate Dean (Students) as set out in section 8 of the Personal Courses of Study Statute <http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~000000001743.pdf>

To apply for permission, fill in the Late Withdrawal form available from either of our Student Customer Service Desks.

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

Wednesday and Friday: 10.30 am – 11.20 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 will be of considerable assistance - see pp 7-8 of SEF Prospectus 2010 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 analyses of these and other dynamic issues are taken up in ECON 305.

## Course Learning Objectives

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

1. describe 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 eight tutorials, in weeks 3 to 6, and weeks 8 to 11. Allocation to tutorial groups should be completed during the first week of lectures, and the first tutorial sessions will commence in the third week, i.e. from Tuesday, 27th 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 4 of the 8 tutorials, i.e. for tutorial assignments 2, 3, 6 and 7, due at the beginning of weeks 4, 5, 9 and 10 respectively. The tutorial papers for grading **must** be handed in to your tutor's box on the Mezzanine floor of Rutherford House by 10.30 am on the Monday preceding that particular tutorial. They will then be graded and returned at the tutorial session for that week. **Note that responsibility for on-time delivery to the correct box is with the individual ECON 202 class member, and that late assignments will not be graded.** The other 4 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 – 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 will be provided on Blackboard.**

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 15-point course, and as VUW has designated one point = 10 hours work, expected work load would total 150 hours. If that workload were spread over a 15-week period, hours expected would average around 10 hours per week. This would involve attending classes (2 lectures for 12 weeks plus 1 tutorial for 8 weeks), plus reading for and completing tutorial assignment work and preparing for the mid-course test and final exam for approximately 8 hours per week. The 8 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, or (5<sup>th</sup> edition updated), 2011.**

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, 2010.**

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 (2009), *Macroeconomics Australasian Edition*, 3<sup>rd</sup> ed, Pearson Education Australia (intermediate)

Carlin, W. and D. Soskice (2005), *Macroeconomics: Imperfections, Institutions and Policies*, Oxford University Press (more challenging)

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

- Proffitt, Penelope, *Maths Made Easy*, 2002, Pearson Education New Zealand  
Khaled, Mohammed and Penelope de Boer, 2007, *Mathematics for Business and Economics*, 2<sup>nd</sup> ed., Pearson Education New Zealand  
Clark, Megan and John A Randal, *A first course in applied statistics: with applications in biology, business, and the social sciences*, 2004, 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 (2010), *New Zealand*, Staff Report for the 2010 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, *Introducing KITT: the Reserve Bank of New Zealand's new DSGE model for forecasting and policy design*, [www.rbnz.govt.nz/research/kitt](http://www.rbnz.govt.nz/research/kitt)  
Statistics New Zealand, *Main Indicators*; see [www.stats.govt.nz](http://www.stats.govt.nz)  
The Treasurer: *The Budget Policy Statement 2009* (15 December 2009); *Fiscal Strategy Report and Budget Economic and Fiscal Update* (20 May 2010); 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 2-hour exam grade, **or** from 70% of the final exam grade plus 15% of the average of your 3 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 5; 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 **Wednesday 8th September** during the lecture period.

### **Examinations**

The final TWO HOUR examination for this course will be scheduled at some time during the period Friday 22nd October – Saturday 13th November 2010 (inclusive)

### **Mandatory Course Requirements**

There is no mandatory course requirement, other than obtaining an overall course mark of 50% or better.

### **Class Representative**

A class representative is to be elected in the first class, and that person's name and contact details will be available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

### **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, 2010

| Lecture No | Topic  | Chapters in Blanchard 5th Edition |
|------------|--|-----------------------------------|
| 1          | Introduction to the course; NZ and the International Economy         | 1, 2                              |
| 2          | Origins and Core of Macroeconomic Ideas; Macro interdependencies     | 27                                |
| 3          | Basic IS/LM model: Goods market                                      | 3                                 |
| 4          | Basic IS/LM: Financial Markets                                       | 4                                 |
| 5          | Basic IS/LM: Model solution, Shocks                                  | 5                                 |
| 6          | Future period IS-LM, via expected C & I                              | 14.1-14.3; 15.1; 16; 17           |
| 7          | Open economy: key measures   | 18                                |
| 8          | Open economy: goods market IS  | 19                                |
| 9          | Fixed Exchange Rate IS/LM  | 20 (espec. 20.5, Appendix)        |
| 10         | Floating Exchange Rate IS/LM   | 20 (espec. 20.1 – 20.4)           |
| 11         | The Labour Market and WS curve                                       | 6.1 – 6.3                         |
| 12         | PS, WS/PS, NRU   | 6.4 – 6.6                         |
| 13         | TEST in lecture period   | As above                          |
| 14         | Deriving the basic AS/AD   | 7.1 – 7.3, 7.7                    |
| 15         | Shocks to basic AS/AD, via MP and FP                                 | 7.3 – 7.5, 7.7                    |
| 16         | Open economy AS/AD, with imported int. goods                         | 7.6, 7.7                          |
| 17         | Phillips Curve from AS/AD, NRU, Inflation expectations               | 8, 9                              |
| 18         | NZ Phillips curve, dynamic model                                     | 9                                 |
| 19         | Exchange rate adjustments and regimes                                | 20.5, 21.1, 21.2, 21.4            |
| 20         | Policy uncertainty, time inconsistency, credibility, monetary policy | 24.1, 24.2; 25                    |
| 21         | RBNZ presentation  | 25                                |
| 22         | The govt. budget constraint, fiscal policy                           | 26                                |
| 23         | Treasury presentation  | 26                                |
| 24         | Summing up   | As above                          |