

School of Economics and Finance

ECON 202 OPEN-ECONOMY MACROECONOMICS

Trimester 2, 2013

COURSE OUTLINE

Names and Contact Details

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

The Course Coordinator is: Dr. Martin Berka

Room: RH 203 in Rutherford House, 23 Lambton Quay

Telephone: 463 5893

Email: martin.berka@vuw.ac.nz

Lectures will be presented by:

Dr Stephen Burnell, RH 205, stephen.burnell@vuw.ac.nz, telephone 463 5764

Dr Nathaniel Robson, RH 304, Nathaniel.robson@vuw.ac.nz.

Office hours: Mondays 13:40 – 14:40.

The Course Administrator is: Alice Fong, alice.fong@vuw.ac.nz, telephone 463 5353

Trimester Dates

Teaching Period: Monday 15 July – Friday 18 October

Study Period: Monday 21st October – Thursday 24 October

Examination Period: Friday 25 October – Saturday 16 November (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 26 July 2013.
2. The standard last date for withdrawal from this course is Friday 27 September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an '*Application for Associate Dean's Permission to Withdraw Late*' including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks.

Class Times and Room Numbers

There will be two fifty-minute lectures per week:

Monday and Wednesday between 12:40 – 13:30pm

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 SEF Prospectus for other possibilities.

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 teaching weeks 4 to 6, and teaching weeks 8 to 12. Allocation to tutorial groups should be completed during the second week of lectures, and the first tutorial sessions will commence in the fourth week, i.e. from Monday, 5 August. 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), 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, specifically for tutorial assignments 2, 4, 6 and 7, due at the beginning of teaching weeks 5, 8, 10 and 11 respectively. Tutorial assignment 4 (week 8) will be a **group work assignment**. The tutorial papers for grading **must** be handed in to your tutor's box on the Mezzanine floor of Rutherford House by 2 pm on the Friday 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.

Group Work

ECON 202 contains a compulsory group work component. Students will have to form groups of 5, and prepare answers to the assignment #4 due on week 8. Each group has to prepare a type-written answer to the group assignment, and present their work during a tutorial (each group will have at most 15 students to present and discuss their answer). All students in the group will receive the same grade for this assignment. In addition, students will have to score their team members according to various criteria (see <http://www.victoria.ac.nz/vbs/teaching/publications/Rubric-for-Teamwork-Preparation-.pdf>). The topic for the group work assignment is **“Natural rate of unemployment in New Zealand is 5%. Discuss.”**. You can use the Blackboard discussion forum for ECON 202 to help find more members for your group.

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.

Prescription

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, the significance of international events, exchange rate regimes, inflation, unemployment.

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 explain the conditions under which they should and should not be used.

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.

Readings

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

Olivier Blanchard & D Johnson, *Macroeconomics (6th edition)*, Pearson Prentice-Hall, 2012, or the 5th edition / updated.

For the Lecture Topics and Chapters in Blanchard to be covered each week, see the schedule on p. 7 of this Course Outline: **ECON 202 LECTURE PROGRAMME, 2013.**

For additional Blanchard material, you are encouraged to visit the textbook website at: <http://www.pearsonhighered.com/blanchard>; e.g. Companion Website for Blanchard's 4/e.

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*, 6th ed, Worth (intermediate)

Blanchard, Olivier and Jeffrey Sheen (2009), *Macroeconomics Australasian Edition*, 3rd ed, Pearson Education Australia (intermediate)

Carlin, W. and D. Soskice (2006), *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:

Khaled, Mohammed and Penelope de Boer, 2007, 2nd ed., *Mathematics for Business and Economics*, Pearson Education New Zealand

Clark, Megan and John A Randal, *A first course in applied statistics*, 2010, 2nd ed., 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 (2011), *New Zealand*, Staff Report for the 2011 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 (2011), *OECD Economic Surveys: New Zealand*, April 2009, Paris, OECD see 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

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

Statistics New Zealand, *Main Indicators*; see www.stats.govt.nz

The Treasurer: *The Budget Policy Statement 2010* (14 December 2010); *Fiscal Strategy Report and Budget Economic and Fiscal Update* (19 May 2011); 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

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 to Students

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 academic audit. The findings may be used to inform changes aimed at improving the quality of VBS 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 **Monday 9th September** during the lecture period.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <http://www.turnitin.com>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and submitted to Turnitin. A copy of submitted materials will be retained on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

Friday 25 October – Saturday 16 November (inclusive)

Mandatory Course Requirements

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

If you cannot complete an assignment or sit a test or examination, refer to

www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

Class Representative

A class representative will be elected in the first class, and that person's name and contact details made 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.

Student feedback

Student feedback on University courses may be found at
www.cad.vuw.ac.nz/feedback/feedback_display.php

Link to general information

For general information about course-related matters, go to
<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

ECON 202 LECTURE PROGRAMME, 2013

| <i>Lecture No</i> | <i>Topic</i> | Chapters in Blanchard 6th Edition |
|-----------------------|--|--|
| 1 | Introduction to the course; NZ and the International Economy | 1, 2 |
| 2 | Origins and Core of Macroeconomic Ideas; Macro interdependencies | 25 |
| 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 for L1 to L12 |
| 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 | 22.1, 22.2; 24 |
| 21 | RBNZ presentation | 24 |
| 22 | The govt. budget constraint, fiscal policy | 23 |
| 23 | Treasury presentation | 23 |
| 24 | Summing up | As above |
