

BOSTON COLLEGE

CHESTNUT HILL, MASSACHUSETTS 02467-3859

Principles of Macroeconomics EC 132.02, Summer 2009

INSTRUCTOR

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CLASS MEETINGS

Mondays and Wednesdays, 6:15 – 9:15 p.m., June 29 – August 5, Carney Hall Room 102.

OFFICE HOURS

Mon and Wed, 5:15 – 6:15 p.m., or by appointment: Office 462 H, 21 Campanella Way (Economics Department)

TEXTBOOK

Samuelson, Paul A. and Nordhaus, William D.:

Macroeconomics, 18th ed., 2004 (paperback) or *Economics*, 18th ed., 2004 (hardcover).

COURSE DESCRIPTION

This is an introductory course in Macroeconomics. It covers topics such as national income and employment, economic fluctuations, monetary and fiscal policy, inflation, growth, and international aspects of macroeconomic policy. The course is required for the economics major and for CSOM students, and it fulfills the social sciences core requirement.

Previous knowledge of Microeconomics concepts helps, and we will have a quick review during the first lecture. Chapters 1-3 in the textbook are a useful reminder; please see me if you have any questions regarding them.

COURSE REQUIREMENTS

(1) There will be one midterm exam (Wednesday, July 15, accounting for 40% of the final grade) and a final (Wednesday, August 5, for 50% of the final grade).

(2) Homework, attendance, participation and class presentations will account for the remaining 10% of the final grade. Problem sets will be handed out in class on a regular basis. The completed homework should be submitted on the due date at the beginning of each class – late homework will not be accepted. You may work together on the problem sets, but you cannot simply copy the work from someone else. If it is discovered that you have been copying someone else's work then both parties involved will fail the corresponding assignments.

(3) Students will participate in group presentations delivered at the beginning of each lecture. Presentations will address topics related to the concepts taught in class (see the agenda below), and are intended to illustrate how the principles and models covered can serve to better understand the current economic events and their implications.

(4) An educational visit to the Federal Reserve Bank of Boston is part of the class participation requirement. The tour is intended to provide an overview of the Federal Reserve System and to outline its role of conducting monetary policy. Those students that cannot attend the visit due to time conflicts can earn the same amount of credit through an alternative assignment.

(5) Class attendance is mandatory, and active class participation is strongly encouraged. Class participation will help you gain a better understanding of the course topics; it will also be taken into account if your final course grade is on the border. Please see me if you have questions about this policy.

(6) You are expected to read the assigned materials ahead of each class meeting. This will allow you to participate and to gain a better understanding of the topics discussed. The textbook chapters for each class are indicated in the tentative schedule listed below. (The chapter numbers differ according to whether you use the paperback or the hardcover edition; the content is exactly the same.)

ACADEMIC INTEGRITY

Your work on homework assignments and exams should be your own. Please review the academic integrity policy of Boston College at: <http://www.bc.edu/integrity>.

SCHEDULE (The (*) sign marks class events and deadlines):

Date	Topics	Paperback Readings	Hardcover Readings
June 29	(*) Distribute Problem Set 1 Introduction: <ul style="list-style-type: none">Fundamentals of economics; supply and demand (See Handout 1). Overview of Macroeconomics: <ul style="list-style-type: none">Objectives and instruments. Measuring Economic Activity: <ul style="list-style-type: none">GDP and national accounts; GDP components;Flow-of-products and flow-of-costs accounting;Double counting and value added;Disposable income, national savings and investment. (See Handout 2);Nominal vs. real GDP;Price indexes and inflation.	Ch. 1, 3	Ch. 1, 3
July 1	Aggregate Supply and Demand: <ul style="list-style-type: none">AS and AD; macroeconomic equilibrium. Foundations of Aggregate Demand (AD): <ul style="list-style-type: none">Aggregate demand; factors affecting AD. Foundations of Aggregate Supply (AS): <ul style="list-style-type: none">Determinants of AS;AS in short vs. long run (the Keynesian school vs. the classical approach). Consumption and Saving: <ul style="list-style-type: none">Consumption, income and saving; national consumption behavior; marginal propensities to consume and save. Investment: <ul style="list-style-type: none">Determinants of investment; investment demand curve.	Ch. 4 B	Ch. 20 B
July 6	(*) Problem set 1 due; distribute problem set 2 The Multiplier Model: <ul style="list-style-type: none">Savings and investment; total expenditures;The investment and government spending multipliers. Fiscal Policy in the Multiplier Model: <ul style="list-style-type: none">The tax and transfer multipliers. Open Economy in the Multiplier Model: <ul style="list-style-type: none">Net exports and output; marginal propensity to import;The spending multiplier in an open economy.	Ch. 8 A	Ch. 24 A
July 8	(*) Presentation: "Business cycles and recessions in the U.S." Business Cycles <ul style="list-style-type: none">Peaks and troughs; sources of business cycles. (See Handout 3). Financial Markets and Money (I): <ul style="list-style-type: none">Functions of the financial system; financial intermediaries; financial assets;Nominal vs. real interest rates;Net present value of assets; the inverse link between interest rates and asset prices.	Ch. 7 A	Ch. 23 A
		Ch. 9 A, B	Ch. 25 A, B

July 13	(*) <i>Problem set 2 due; distribute problem set 3</i> (*) <i>Presentation: “The stock market: bubbles and crashes”</i> Financial Markets and Money (II): <ul style="list-style-type: none"> • Monetary aggregates (M1 and M2); banking and money; • Banking and the supply of money: the reserve requirement ratio and the money multiplier; • The stock market: rates of return vs. risk. 	Ch. 9 C, D	Ch. 25 C, D
July 15	(*) <i>Midterm</i> (*) <i>Presentation: “The structure of the Federal Reserve System”</i> Central Banking and Monetary Policy (I): <ul style="list-style-type: none"> • The Federal Reserve System; • Three monetary policy tools: open market operations, discount rate lending, reserve requirements. 	Ch. 10 A	Ch. 26 A
July 20	(*) <i>Problem set 3 due; distribute problem set 4</i> (*) <i>Presentation: “The European Monetary Union and the ECB: costs and benefits”</i> Central Banking and Monetary Policy (II): <ul style="list-style-type: none"> • The effects of money on output and prices: the monetary transmission mechanism, monetary policy in AD-AS. 	Ch. 10 B	Ch. 26 B
July 22	(*) <i>Presentation: “Unemployment and labor market issues: the U.S. vs. Europe”</i> Unemployment: <ul style="list-style-type: none"> • Measurement, Okun’s law, types of unemployment, wage rigidity and cyclical (involuntary) unemployment. Inflation (I): <ul style="list-style-type: none"> • Definition, types, the liquidity trap, economic impact, the optimal inflation rate. 	Ch. 15 B	Ch. 31 B
July 27	(*) <i>Presentation: “The history of hyperinflations”</i> (*) <i>Problem set 4 due; distribute problem set 5</i> Inflation (II): <ul style="list-style-type: none"> • The Phillips curve: short run vs. long run; • The Phillips curve; • Prices in AD-AS, sources of inflation. 	Ch. 16 B, C	Ch. 32 B, C
July 29	(*) <i>Presentation: “The economic size of countries: GDP per capita and Purchasing Power Parity”</i> Exchange Rates and the International Financial System: <ul style="list-style-type: none"> • Trade openness; the balance of international payments; • Foreign exchange rates; the foreign exchange market; • Purchasing power parity; fixed vs. flexible exchange rates; intervention to defend a currency peg; speculative attacks. 	Ch. 13 A, B, C	Ch. 29 A, B, C
Aug 3	(*) <i>Problem set 5 and the alternative assignment are due</i> (*) <i>Presentation: “Currency pegs and currency crises: the peso devaluations in Argentina (2002) and Mexico (1995)”</i> (*) <i>Review before the final exam</i>		
Aug 5	(*) <i>Final exam</i>		