

**UNIVERSITY OF WATERLOO**  
**Department of Economics**

**Term and Year of Offering:** Spring 2011

**Course Number and Title:** ECON 202 - 002, Macroeconomic Theory 1

**Lecture Times, Building, and Room Number:** M, W 8:30 – 9:50 a.m., HH 1101

**Instructor's Name, Office Location, Office Hours, Contact:**  
M. Vaughan, HH 102, Monday and Wednesday 10:00 - 11:30 a.m., [mvaughan@uwaterloo.ca](mailto:mvaughan@uwaterloo.ca); ext 36825

**Web Page:** <http://economics.uwaterloo.ca/fac-Vaughan.html>

**Course Description:**

This course is designed to provide students with a solid command of intermediate macroeconomic theory as a tool for understanding how the Canadian economy behaves as a whole. Topics included for discussion are the theory of consumption, money demand and money supply model, aggregate demand model, aggregate supply model, debates over government debt, inflation, economic growth model, and open economy macroeconomics. Aside from learning theories, the course also provides students with analytical skills necessary to the analysis and interpretation of real-world macroeconomic issues.

**Course Objectives:** At the end of the course you should be able to:

- Understand the methods and approaches to macroeconomics.
- Understand the factors which determine aggregate output as well as income and expenditure in the long run and the determination of the real interest rate.
- Understand the long-run determinants of the price level and the inflation rate.
- Understand the long-run determinants of an economy's international trade balance and the level of net capital outflow.
- Use the Aggregate Demand/Aggregate Supply model to explain short-run fluctuations.
- Use the IS/LM model to study the impact of monetary and fiscal policies on the economy in the short run.
- Understand aggregate demand under both flexible and floating exchange rates.
- Understand the trade-off between inflation and unemployment in the short run.

**Required Text:** Mankiw, N. Gregory and William Scarth, Macroeconomics, Fourth Canadian Edition. New York, N.Y.: Worth Publishers, 2011.

Kaufman, Roger T. and William Scarth, Student Guide and Workbook for Macroeconomics, 4<sup>th</sup> Canadian Edition, New York, N.Y.: Worth Publishers, 2011.

**Resources:** The lecture overhead slides and course outline (syllabus) are posted on UW-ACE at:

**1115 Econ 202 Macroeconomic Theory I.**

**NOTE:** The UW-ACE site is down occasionally. Download the slides to your computer. Always be prepared!

## Course Outline

### **Part I Introduction**

Chapter 1 The Science of Macroeconomics

Chapter 2 The Data of Macroeconomics  
**Omit** Unemployment, GDP, and Okun's Law,  
pgs.41 – 43.

### **Part II Classical Theory: The Economy in the Long Run**

Chapter 3 National Income: Where It Comes From and  
Where It Goes  
**Omit** The Cobb-Douglas Production Function,  
pgs.60 - 62.

Chapter 4 Money and Inflation  
**Omit** 4-7 Hyperinflation pgs.115-121, Appendix

Chapter 5 The Open Economy  
**Omit** Appendix

Chapter 6 Unemployment  
**Omit** 6-5 Labour Market Experience: Europe  
pgs.196-202, Appendix

**Part IV            Business Cycle Theory: The Economy in the Short Run**

Chapter 9            Introduction to Economic Fluctuations

Chapter 10          Aggregate Demand I: Building the IS/LM Model

Chapter 11          Aggregate Demand II: Applying the IS/LM Model  
**Omit** 11-3 The Great Depression pgs.359-364, Appendix

Chapter 12          The Open Economy Revisited: The Mundell-Fleming Model and the Exchange-Rate Regime  
**Omit** 12-4 Interest Rate Differentials pgs.399-404,  
In 12-5, Should Exchange Rates Be Floating Or Fixed? **omit** pgs.406-410,  
**Omit** 12 – 6 From the SR to the LR: The Mundell-Fleming Model With a Changing Price Level pgs. 410 – 413  
**Omit** 12-7 A Concluding Reminder pg. 413, Appendix

Chapter 13          Aggregate Supply and the Short-Run Tradeoff Between Inflation and Unemployment  
**Omit** 13-1 The Basic Theory of Aggregate Supply pgs.426-432, Challenges to the Natural-Rate Hypothesis pgs.447-451, Appendix

**Topics to be Covered in Lectures:** The following list is meant as a guideline.

	<b>Date</b>	<b>Topic</b>	<b>Textbook Chapter</b>
Wk 1	May 2	Introduction	Chapter 1
	May 4	Data of Macroeconomics	Chapter 2
Wk 2	May 9	National Income	Chapter 3
	May 11	National Income	Chapter 3
Wk 3	May 16	Money and Inflation	Chapter 4
	May 18	Money and Inflation	Chapter 4
Wk 4	May 23	Victoria Day Holiday	
	May 25	Long-run Open Economy	Chapter 5
Wk 5	May 30	Class Canceled	
	Jun 1	Long-run Open Economy	Chapter 5
Wk 6	Jun 6	Unemployment	Chapter 6
	Jun 8	AD / AS Model	Chapter 9
Wk 7	Jun 13	<b>Term Test One (Chap. 1 – 5)</b>	
	Jun 15	AD / AS Model	Chapter 9
Wk 8	Jun 20	Building the IS / LM Model	Chapter 10
	Jun 22	Building the IS / LM Model	Chapter 10
Wk 9	Jun 27	Applying the IS / LM Model	Chapter 11
	Jun 29	Applying the IS / LM Model	Chapter 11
Wk 10	Jul 4	Short-run Open Economy Model	Chapter 12
	Jul 6	Short-run Open Economy Model	Chapter 12
Wk 11	Jul 11	<b>Term Test Two (Chap. 6, 9 – 11)</b>	
	Jul 13	Short-run Open Economy Model	Chapter 12
Wk 12	Jul 18	Inflation and Unemployment	Chapter 13
	Jul 20	Inflation and Unemployment	Chapter 13
Wk 13	Jul 25	Review Session	

**Evaluation:** The course grade will be based on two in-class tests and a final examination which will be held during the Official Examination Schedule. The breakdown is as follows:

Term Test One            20% Monday, June 13 on Chapters 1 - 5.

Term Test Two            20% Monday, July 11 on Chapters 6, 9 -11.

Final examination:      60% Announced by the Registrar's Office

The final exam period for Spring Term 2011 is August 2 to August 13. Students are expected to be available during this time. Travel plans are not acceptable grounds for granting an alternative final examination time. See:

<http://www.registrar.uwaterloo.ca/exams/finalexams.html>)

**NOTE:**

- Class tests missed, for any reason, will not be rescheduled. If you miss a test due to illness and have valid documentation (approval required), you may shift the weight of the test to the final exam.
- Marks will be posted on UW-ACE. University regulations prevent me from posting grades in public places or sending grades by e-mail.
- Photographic devices are not permitted in class. **This is a University regulation.**
- **THIS IS A DEVICE-FREE ZONE.** Please turn off your devices and put them away for the duration of the lecture.
- I do **NOT** lend my lecture notes to students.

## **Academic Integrity, Grievance, Discipline, Appeals, and Note for Students with Disabilities**

**Academic Integrity:** in order to maintain a culture of academic integrity, members of the University of Waterloo community are expected to promote honesty, trust, fairness, respect and responsibility.

**Grievance:** A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read Policy 70 - Student Petitions and Grievances, Section 4, <http://www.adm.uwaterloo.ca/infosec/Policies/policy70.htm>

**Discipline:** A student is expected to know what constitutes academic integrity, to avoid committing academic offenses, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offense, or who needs help in learning how to avoid offenses (e.g., plagiarism, cheating) or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 – Student Discipline. For information on categories of offenses and types of penalties, students should refer to Policy 71 - Student Discipline. <http://www.adm.uwaterloo.ca/infosec/Policies/policy71.htm>

**Appeals:** A student may appeal the finding and/or penalty in a decision made under Policy 70 - Student Petitions and Grievances (other than regarding a petition) or Policy 71 - Student Discipline if a ground for an appeal can be established. Read Policy 72 - Student Appeals, <http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>

**Note for students with disabilities:** The Office for Persons with Disabilities (OPD), located in NH1132, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the OPD at the beginning of each academic term.