

**University of Waterloo**  
**Department of Economics**  
**ECON 202, Section 003**  
**Macroeconomic Theory 1**  
**Fall 2014**  
**Tuesday and Thursday, 11:30 – 12:50 p.m.**  
**Classroom: MC 2017**

**Instructor and T.A. Information**

Instructor: M. Vaughan

Office: HH 102

Office Hours: Monday and Wednesday, 9:30 – 11:00 a.m., or by appointment.

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Webpage: <http://economics.uwaterloo.ca/mary-ann-vaughan>

**Notes on office hours or contacting instructor**

- When sending email, "Econ 202" must appear in the subject line and the message must include your full name and ID number.

**Course Outline**

This course outline will be available at two locations for the duration of the term:

1. [Department of Economics website](#)
2. [LEARN website](#)

**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 determination of national income/output, the determinants of the price level and inflation, determinants of the interest rate and the trade balance, theoretical models of the economy, and basic assumptions of the long run and the short run. Aside from learning theories, the course also provides students with analytical skills necessary to the analysis and interpretation of real-world macroeconomic issues.

**Course Objective**

Upon completion of this course, students 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, Fifth Canadian Edition**. New York, N.Y.: Worth Publishers, 2014.

### Optional Study Guide

- Kaufman, Roger T. and William Scarth, **Student Guide and Workbook for Macroeconomics, 5<sup>th</sup> Canadian Edition**. New York, N.Y.: Worth Publishers, 2014.

### Additional Resources Available on LEARN

The lecture overhead slides are posted on [LEARN](#) at: 1149, ECON 202, Fall 2014

- The LEARN site is down occasionally. Download the slides to your computer. Always be prepared!
- Students writing tests and exams are responsible for saving course materials on Learn before the access to their courses is shut off (normally on the first day of classes of the next term).

### Course Outline

#### Part 1: Introduction

##### *Chapter 1: The Science of Macroeconomics*

##### *Chapter 2: The Data of Macroeconomics*

**OMIT** Several Measures of Income, pgs. 32 - 33

**OMIT** Unemployment, GDP, and Okun's Law, pgs. 41 – 43

#### Part 2: 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 3: 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**

- **OMIT** A Loanable-Funds Interpretation of the IS Curve, pgs. 330 – 331

#### **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** 2-7 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 – 433
- **OMIT** 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>Week</b>	<b>Date</b>	<b>Topic</b>	<b>Chapters</b>
Week 1	Sept 9	Introduction	Chapter 1
	Sept 11	Data of Macroeconomics	Chapter 2
Week 2	Sept 16	National Income	Chapter 3
	Sept 18	National Income	Chapter 3

<b>Week</b>	<b>Date</b>	<b>Topic</b>	<b>Chapters</b>
Week 3	Sept 23	Money and Inflation	Chapter 4
	Sept 25	Money and Inflation	Chapter 4
Week 4	Sept 30	Long-run Open Economy	Chapter 5
	Oct 2	Long-run Open Economy	Chapter 5
Week 5	Oct 7	Unemployment	Chapter 6
	Oct 9	AD/AS Model	Chapter 9
Week 6	Oct 14	AD/AS Model	Chapter 9
	<b>Oct 16</b>	<b>Term Test One (Chap. 1 -5)</b>	
Week 7	Oct 21	Building the IS/LM Model	Chapter 10
	Oct 23	Building the IS/LM Model	Chapter 10
Week 8	Oct 28	Applying the IS/LM Model	Chapter 11
	Oct 30	Applying the IS/LM Model	Chapter 11
Week 9	Nov 4	Short-run Open Economy Model	Chapter 12
	Nov 6	Short-run Open Economy Model	Chapter 12
Week 10	Nov 11	Short-run Open Economy Model	Chapter 12
	<b>Nov 13</b>	<b>Term Test Two (Chap. 6, 9 – 11)</b>	
Week 11	Nov 18	Inflation and Unemployment	Chapter 13
	Nov 20	Inflation and Unemployment	Chapter 13
Week 12	Nov 25	Inflation and Unemployment	Chapter 13
	Nov 27	Review Session	

## Course Requirements and Assessment

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:

Assessment	Chapters	Date of Evaluation	Weighting
Midterm 1	Ch 1 – 5	Thur., Oct. 16, in class time	20%
Midterm 2	Ch 6, 9 – 11	Thur., Nov 13, in class time	20%
Final Exam	Comprehensive	TBA (between Dec. 4– 19)	60%
Total			100%

### Notes

- The format for both midterms and the final exam will be multiple choice questions. The final exam will have a multiple choice section and a written section.
- The midterm tests will be written in class.
- Midterm grades will be posted on Learn.
- The final exam period for Fall Term 2014 is December 4 to December 19 inclusive. Students are expected to be available during this time. Travel plans are not acceptable grounds for granting an alternative final examination time. (See [Registrar's Office Examinations and Related Matters](#))
- The date and time for the final exam will be determined by the Registrar's Office.
- The final exam schedule is posted online, will be announced in class, and posted on LEARN.
- Only the Registrar's Office can issue final grades.

## Examination Policy

### Missing a Midterm Due to Illness During the Term

- Missing a midterm will automatically result in a grade of zero for that midterm. If the illness can be documented with a UW Verification of Illness Form (the only acceptable document), with approval you may transfer the weight of the missed midterm to the final exam. This remedy is a privilege and not a right.
- Immediately upon your return, please deliver to me a **hard copy** of your medical documents.
- The midterm schedule is set and will not be changed for any reason.

### Missing the Final Exam Due to Illness

- Missing the final exam is a very serious matter which automatically results in a grade of zero for the final exam and possibly a failing grade for the course. Please carefully read the Economics Department policy on deferred final exams for instructions.
- No deferred final exam will be provided for students who missed all the exams (including the final exam) in this course. [Deferred Final Exam Policy.](#)

## Submission of Exam Papers

- Late submission of exam papers is not accepted and missed submissions will receive a grade of zero for whatever reason.
- Exam papers must be submitted in whole and on time in the exam room. Exam papers (a) not submitted on time, (b) submitted with missing pages, (c) submitted elsewhere, with the exception of students with permission to write in the AS Office, (d) or not received at all will receive a grade of zero for whatever reason.
- It is the responsibility of students to ensure that they write exams in the location, date, and time assigned to their section. Students writing exams in the **wrong** section are considered to have **NOT** written their exam at all and will receive a grade of zero.

## Fee-Arranged Issues

Students are responsible for administrative matters concerning their course registration including fee arrangements. No make-up work or other remedies will be given for loss of access to LEARN and academic consequences arising from administrative issues with the Registrar's Office.

## Late Work

N/A

## Information on Plagiarism Detection

N/A

## Electronic Device Policy

- **THIS IS A HANDHELD-DEVICE-FREE ZONE.**
- Turn off all handheld devices and put them away for the duration of the lecture.
- Laptop computers may only be used to view lecture material.
- Photographic devices are not permitted in class due to copyright and privacy issues.
- Audio or video recording devices are not permitted in class due to copyright and privacy concerns.

## Attendance Policy

Class attendance is an integral part of the course. Although attendance is not formally taken, it is critical for understanding the course material. Students are responsible for all material covered whether they choose to attend lectures or not.

## Classroom Protocols

- I do **NOT** lend my lecture notes to students for any reason.
- In order to maintain a learning environment in this classroom, I expect the highest level of courtesy and professional behavior from every student. In particular, be punctual and turn off all audible ringers on all devices during class.
- As a courtesy to others, no eating in class please. If you have coffee, water, etc., please dispose of your garbage when you leave the classroom.
- No private conversations in class will be tolerated

## Institutional-required statements for undergraduate course outlines approved by Senate Undergraduate Council, April 14, 2009

### Cross-listed course

Please note that a cross-listed course will count in all respective averages no matter under which rubric it has been taken. For example, a PHIL/PSCI cross-list will count in a Philosophy major average, even if the course was taken under the Political Science rubric.

### Academic Integrity

**Academic Integrity:** In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility. See the [UWaterloo Academic Integrity Webpage \(https://uwaterloo.ca/academic-integrity/\)](https://uwaterloo.ca/academic-integrity/) and the [Arts Academic Integrity Office Webpage \(http://arts.uwaterloo.ca/current-undergraduates/academic-responsibility\)](http://arts.uwaterloo.ca/current-undergraduates/academic-responsibility) for more information.

**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, **including writing exams in a section that you are not registered in**, 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](#). For typical penalties check [Guidelines for the Assessment of Penalties \(http://www.adm.uwaterloo.ca/infosec/guidelines/penaltyguidelines.htm\)](http://www.adm.uwaterloo.ca/infosec/guidelines/penaltyguidelines.htm).

**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](#). In addition, read [the Student Grievance Process](#) for the Faculty of Arts.

**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](#).

### **Other sources of information for students**

Academic integrity ([Arts Academic Integrity Office \(uWaterloo\)](#))

### **Accommodation for Students with Disabilities**

**Note for students with disabilities:** The [AccessAbility Services office](#), located in Needles Hall Room 1132, 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 AS office at the beginning of each academic term.