

University of Waterloo
Department of Economics
Econ 302 (Section 002): Macroeconomic Theory 2
Fall 2014

Instructor: Nafeez Fatima

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Office Hours: Fridays from 12.00 pm to 1.30 pm

Lecture Hours and Location: Wednesdays from 6.30 pm to 9.20 pm in
AL 211

Course Objectives:

This is the second course in macroeconomics theory sequence and provides an extension of the tools developed in Macroeconomic theory 1. The objective of this course is to present a full coverage of modern macroeconomic theories and develop basic models to analyze both short run and long run phenomena in a closed economy. The questions of concern will include: Why are so many countries poor? What policies might help them to grow out of poverty? What causes recessions? Can the government do anything to combat recessions? Should it? What are the sources of economics booms and recessions? Why is there unemployment? What are the sources of inflation? And, how do government policies affect output, inflation and unemployment?

We will discuss the standard analytical methods used in macroeconomics that address these issues and provide a rigorous treatment of macroeconomic theories. We will closely look at the underlying micro foundations of macroeconomic theories and emphasize on the role of expectations. Topics will include the neoclassical growth models, real business cycles models, government spending and government debt,

consumption, investment, models involving money and issues related to inflation. After completion of this course students will learn how these theoretical frameworks can be used to understand and interpret actual macroeconomic events.

Prerequisites:

Econ 202 & Econ 211. For Mathematics students in place of Econ 211, one of Math 115, 106/125, 136, 146 and one of Math 118, 119, 128, 138, 148

Required Textbook:

Barro, Robert J. and Apostolos Serletis, *Macroeconomics: Modern Approach*, First Canadian Edition, Nelson, 2010

Note: US edition of this textbook is also available.

Recommended Textbook :

Stephen D. Williamson, *Macroeconomics*, Fourth Edition, Pearson Addison Wesley Publishers Limited, 2011

Resources:

Course related materials including lecture notes are posted on Learn at:
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It is highly recommended that students attend the lectures and read the textbook. Lecture notes are provided as a supplement to the text book. The content of the exams will be announced in class and on Learn. Students are responsible for visiting this site frequently.

Course Evaluation:

Student evaluation for this course will consist of two in-class midterm exams and a final exam. The exams will include both multiple choice questions and short questions. The rooms assigned for the midterm exams will be announced later in class and on Learn. Final exam will be comprehensive; it will include all materials covered in this course. The final exam date will be announced by the Registrar's Office. The final exam

period for Fall 2014 term is from December 4 to December 19. Students are expected to be available during this time. An alternative final exam time is not allowed on the ground of travel plans.

The Exam Schedule and Mark Break down:

Exams	Date	Time	Syllabus	Weight
Midterm 1	October 15, 2014	6.30 pm to 8.00 pm	Chapters 1-5 (Parts 1 & 2)	25%
Midterm 2	November 12, 2014	6.30 pm to 8.00 pm	Chapters 6-10 (Parts 3 & 4)	25%
Final	TBA	TBA	Comprehensive	50%

Policy for Missed Exams:

No make-up midterm exam will be provided for this course. Students who do not have a relevant medical certificate will receive a mark of zero on any missed exam and their final grade will be assigned in accordance with the formula specified above. For students who have valid medical certificate (approved by the instructor), the weight of the missed exam will be transferred to the final exam.

No deferred final exam will be provided for student who missed all the exams (including the final exam) in this course. Students are advised to notify the instructor in person about the missed exam as soon as they are better. E-mail notification about the missed exam is not accepted.

Policy for Missed Final Exam:

For detailed instruction regarding missed final exam, visit the following webpage:

<https://uwaterloo.ca/economics/policies-and-resources>

Grades:

Exam marks will be posted on Learn. Posting grades in public places or sending grades by e-mail are prohibited by university regulations.

Remarking Policy:

If any student feels that the exam is not marked properly, he/she must inform the instructor within 6 days of the date on which the grades are posted on Learn. Please be advised that the entire test will be remarked and the grade may improve, remain unchanged or perhaps even decrease as a result of the remarking process.

Topics covered:

****This course schedule is tentative. There may be addition or slight modification in this schedule given the pace of the class. ****

Part 1: Introduction

Chapter 1: Thinking About Macroeconomics

Chapter 2: National-Income Accounting: Gross Domestic Product and the Price Level

Part 2: Economic Growth

Chapter 3: Introduction to Economic Growth (Appendix included)

Chapter 4: Working with the Solow Growth Model

Chapter 5: Conditional Convergence and Long-Run Economic Growth (appendix included)

History of Modern Macroeconomics and the Current global Financial Crisis (from other sources)

Midterm 1 – October 15 – Chapters 1, 2, 3, 4 & 5 (Parts 1 & 2)

Part 3: Economic Fluctuations

Chapter 6: Markets, Prices, Supply, and Demand

Chapter 7: Consumption, Saving, and Investment

Chapter 8: An Equilibrium Business-Cycle Model

Chapter 9: Capital Utilization and Unemployment

Part 4: Money and Prices

Chapter 10: The Demand for Money and the Price Level

Chapter 11: Inflation, Money Growth, and Interest Rates

Midterm 2 – November 12 – Chapters 6, 7, 8, 9 & 10 (Parts 3 & 4)

Topic 5: Government Sector

Chapter 12: Government Expenditure

Chapter 13: Taxes

Final Exam – TBA – Comprehensive (all topics discussed in class are included)

Tentative Class Schedule and Reading List:

Week	Date	Lecture Topics and Related Readings
1	September 10	The History of Modern Macroeconomics, Thinking About Macroeconomics (Chapter 1) & National-Income Accounting: Gross Domestic Product and the Price Level (Chapter 2)
2	September 17	National-Income Accounting: Gross Domestic Product and the Price Level (Chapter 2) & Introduction to Economic Growth (Chapter 3)
3	September 24	Introduction to Economic Growth (Chapter 3) & Working with the Solow Growth Model (Chapter 4)
4	October 1	Working with the Solow Growth Model (Chapter 4) & Conditional Convergence and Long-Run Economic Growth (Chapter 5)
5	October 8	Conditional Convergence and Long-Run Economic Growth (Chapter 5), The current Global Financial Crisis & Markets, Prices, Supply, and Demand (Chapter 6) & Review for Midterm Exam 1
6	October 15	Markets, Prices, Supply, and Demand (Chapter 6) & Midterm Exam 1
7	October 22	Consumption, Saving, and Investment (Chapter 7)
8	October 29	An Equilibrium Business-Cycle Model (Chapter 8)
9	November 5	Capital Utilization and Unemployment

		(Chapter 9) & The Demand for Money and the Price Level (Chapter 10)
10	November 12	Inflation, Money Growth, and Interest Rates (Chapter 11) & Midterm Exam 2
11	November 19	Government Expenditure (Chapter 12) & Taxes (Chapter 13)
12	November 26	Taxes (Chapter 13) & Review for Final Exam

Relevant Journal Articles: (time permitting - will be discussed in class after each topic)

1. Economic Growth:

Hall, R. and C. Jones (1999). "Why Do Some Countries Produce So Much More Output Per Worker Than Others?" *Quarterly Journal of Economics* 114: 83-116

Lucas, R. E. (1990). "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review Papers and Proceedings* 80: 92-96.

Reinhart, C. and K. Rogoff (2004). "Serial Default and the "Paradox" of Rich-to-Poor Capital Flows." *American Economic Review Papers and Proceedings* 94: 53-58

Sala-i-Martin, X. (1996). "The Classical Approach to Convergence Analysis" *Economic Journal* 106: 1019-1036

Solow, R.M. (1994). "Perspectives on Growth Theory," *Journal of Economic Perspectives*, 8: 45-54

Romer, P. M. (1994). "The Origins of Endogenous Growth." *Journal of Economic Perspectives* 8: 3-22

2. Economic Fluctuations

Hall, R. (1978). "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence." *Journal of Political Economy* 86: 971- 987

Hsieh, C. T. (2003). "Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund." *American Economic Review* 93, 397-405

Kreinin, M. (1961). "Windfall Income and Consumption: Additional Evidence." *American Economic Review* 51, 388-390

3. Money, Inflation and Interest rate:

Hall R. (2010). "Why Does the Economy Fall to Pieces after a Financial Crisis?" *Journal of Economic Perspectives* 24: 3-20

4. Government Sector:

Auerbach, A., W. Gale, and B. Harris (2010). "Activist Fiscal Policy." *Journal of Economic Perspectives* 24: 141-164

Notes:

Although it is not mandatory, attendance is highly recommended. Some of the materials covered in the class will not be included in the lecture notes so it is strongly advised that students attend classes regularly. Student participation in class is also highly encouraged. Since, the course contents are technical in nature; a person to person communication is preferred to answer questions. Students are welcome to ask any questions during the regular office hours. Regarding e-mail communication, students should use the university e-mail address. **When sending an e-mail, write Econ 302 (Section 002) on the subject line and include your name and student ID number.**

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

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. See the UWaterloo Academic Integrity Webpage (<https://uwaterloo.ca/academic-integrity/>) and the Arts Academic Integrity Office Webpage (<http://arts.uwaterloo.ca/current-undergraduates/academic-responsibility>) for more information.

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 (<https://uwaterloo.ca/secretariat/policies-procedures-guidelines/policy-70>). When in doubt please be certain to contact the department's administrative assistant who will provide further assistance.

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. 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>). For typical penalties check Guidelines for the Assessment of Penalties (<http://www.adm.uwaterloo.ca/infosec/guidelines/penaltyguidelines.htm>).

Appeals:

A decision made or penalty imposed under Policy 70, Student Petitions and Grievances (other than a petition) or Policy 71, Student Discipline may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to Policy 72, Student Appeals (<http://www.adm.uwaterloo.ca/infosec/Policies/policy72.htm>).

Academic Integrity website

(Arts):http://arts.uwaterloo.ca/arts/ugrad/academic_responsibility.html

Academic Integrity Office (uWaterloo):<http://uwaterloo.ca/academic-integrity/>

Note for students with disabilities:

The AccessAbility Services (AS) 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.