

University of Waterloo
Department of Economics
Econ 302 (Section 002): Macroeconomic Theory 2
Winter 2016

Instructor: Nafeez Fatima

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Office Hours: Mondays from 5.30 pm to 7.00 pm

(other times by appointment only)

Lecture Hours and Location: Wednesdays from 6.30 pm to 9.20 pm in RCH
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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 2016 term is from April 8 to April 23. 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 | February 10, 2016 | In class Exam | Chapters 1-5 (Parts 1 & 2) | 25% |
| Midterm 2 | March 16, 2016 | In class Exam | 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/current-undergraduates/policies-and-resources/deferred-final-exam-policy>

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 – February 10 – 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 – March 16 – Chapters 6, 7, 8, 9 & 10 (Parts 3 & 4)

Topic 5: Government Sector

Chapter 12: Government Expenditure

Chapter 13: Taxes

Chapter 14: Government Debt (time permitting)

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 | January 6 | The History of Modern Macroeconomics, Thinking About Macroeconomics (Chapter 1) & National-Income Accounting: Gross Domestic Product and the Price Level (Chapter 2) |
| 2 | January 13 | National-Income Accounting: Gross Domestic Product and the Price Level (Chapter 2) & Introduction to Economic Growth (Chapter 3) |
| 3 | January 20 | Introduction to Economic Growth (Chapter 3) & Working with the Solow Growth Model (Chapter 4) |
| 4 | January 27 | Working with the Solow Growth Model (Chapter 4) & Conditional Convergence and Long-Run Economic Growth (Chapter 5) |
| 5 | February 3 | 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 | February 10 | Markets, Prices, Supply, and Demand (Chapter 6) & Midterm 1 |
| 7 | February 17 | Reading week (no classes) |
| 8 | February 24 | Consumption, Saving, and Investment (Chapter 7) Consumption, Saving, and |

| | | |
|----|-----------------|--|
| | | Investment (Chapter 7) |
| 9 | March 2 | An Equilibrium Business-Cycle Model (Chapter 8) |
| 10 | March 9 | Capital Utilization and Unemployment (Chapter 9) & The Demand for Money and the Price Level (Chapter 10) |
| 11 | March 16 | Inflation, Money Growth, and Interest Rates (Chapter 11) & Midterm 2 |
| 12 | March 23 | Government Expenditure (Chapter 12) & Taxes (Chapter 13) |
| 13 | March 30 | 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.**

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.

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 are expected to promote honesty, trust, fairness, respect and responsibility.

Discipline: A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (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](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-71) (<https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-71>)

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](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-70) (<https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-70>), Section 4.

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](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-72)

(<https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-72>).

Other sources of information for students:

[Academic Integrity website \(Arts\)](https://uwaterloo.ca/arts/current-undergraduates/student-support/ethical-behaviour)

<https://uwaterloo.ca/arts/current-undergraduates/student-support/ethical-behaviour>

[Academic Integrity Office \(UWaterloo\)](https://uwaterloo.ca/academic-integrity/)

<https://uwaterloo.ca/academic-integrity/>

Note for students with disabilities: The [AccessAbility Services](https://uwaterloo.ca/disability-services) office (<https://uwaterloo.ca/disability-services>), located on the first floor of the Needles Hall extension, 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.