

Macroeconomic Theory 2015/16

ECON 330 - SECTION 001

Prof. Barczyk

class location: LEA 26
class time: 2:35pm - 3.55pm TR

office hours: 4pm - 5pm TR
office: LEA 321b

Teaching assistants

Sau Lai Book

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Fall semester (2015)

First class: Tuesday, September 8
Last class: Thursday, December 3
Midterm exams: October 8, November 19

Winter semester (2016)

First class: Tuesday, January 12
Last class: Thursday, April 14
Midterm exam: February 18
Final exam: TBA by the Faculty of Arts

Grading and exams

Three (3) midterm examinations and one (1) final exam in the final examination period of the winter semester 2016. The final will be **cumulative**. The midterm exams are not cumulative. Each midterm carries a weight of 20%. The final is worth 40%. If you miss a midterm you must **hand me** an original physician note **within 7 days** of the date of the exam which explains the medical reason for your absence. Make a photocopy of it and keep it until the end of the course. Otherwise it will be considered

unexcused and you get 0. No valid medical reason also means 0. Midterm exams cannot be rewritten. If you miss an exam for a valid medical reason the weight will be allocated to your final exam. If you walk into the examination room your exam will count. It is your responsibility to make sure that you are healthy enough to write the exam. If you discontinue the exam you cannot come back with a medical reason of why the exam should not count. There is no personalization for how your grade is calculated. Everybody is subject to the grading scheme outlined here. There is *nothing* extra you can do to obtain a higher grade.

Regrading policy

If you believe that the TAs made a mistake in grading your exam, you must provide the TA who graded the particular question with a **written** appeal which clearly points out the mistake(s) the TA made. You and the TA have to sign the appeal and date it. The TA will then regrade your **entire** exam, and you could end up with a lower grade. If after the regrade you are still convinced that the TA is wrong, you have to provide the TA with a **second written** appeal which has to be signed and dated. At this point make photocopies of both signed and dated appeals and hand them to me. Leave the originals with the TA. Finally, you have to ensure that the appeals are done in a timely manner. Your first appeal has to take place during the first three (3) days following the date of when the exam was officially handed back.

Preparation for exams

You are primarily tested on the material covered during lectures and the assigned exercises. Attending lectures, taking good notes, and doing the exercises are thus excellent methods of preparation. Discussing the material with your peers can be very useful as well. I also encourage you to come by my office hours if you are having difficulties or you just want to exchange thoughts and ideas. Email, however, should be used only in exceptional cases.

Pre-requisites

ECON 230 or ECON 250. If a student has already taken ECON 208 and ECON 209, it may be concurrently taken with ECON 230 with the **permission** of the instructor. This will be **enforced** after the first week of classes and students without the necessary pre-requisites will be automatically removed. Students must register for both ECON 330D1 and ECON 330D2. No credit will be given for this course unless both ECON 330D1 and ECON 330D2 are successfully completed in consecutive terms.

Note: even though calculus is not required you should feel comfortable with mathematical reasoning in the form of diagrams, functions, and equations.

Course Material

The assigned textbook is *Macroeconomics* (Fourth Canadian Edition) by Stephen

Williamson, published by Pearson Education Canada. Some concepts presented in class are not readily available in the assigned textbook. If you have another edition of this book feel free to use it. But, you are responsible to know the discrepancies between editions. For example, the numbering of exercises might have changed, chapters may have been added or condensed, etc.

Course Description

We begin the course by covering some classical issues in macroeconomics. We will then turn to a more modern approach, building a one-period model of the macroeconomy based on microeconomic foundations. We will use this model to study changes in government policies. Next, we will study a search model of unemployment. The course then turns to dynamic models. We will study determinants of economic growth in multi-period models. After that, we will return to the one-period model and add a second period which allows a more serious treatment of household saving and borrowing. This two-period model will culminate in the real inter-temporal model with investment, a workhorse model of modern macroeconomics. We will then introduce money into this model and study a cash-in-advance economy. There will be numerous applications, in particular, related to business cycles.

Course Outline

The following is an overview of what I expect to cover. The time we spend on certain issues may change as we find the right pace for the course and as a result, more or less may be covered than is presented in this overview.

Basics of classical theory and measurement

- Aggregate supply, aggregate demand and the equilibrium interest rate
- The gross domestic product, the inflation rate and the unemployment rate

A one-period model of the macroeconomy

- Basic microeconomic concepts: preferences, budget constraints, and substitution/income effects
- How consumers and producers make labor supply/demand choices
- Obtaining consistency among decision makers: competitive equilibrium; Pareto efficiency of the equilibrium outcome
- Applications of the one-period model primarily to government policy

A search model of unemployment

- Determinants of unemployment
- The effects of changes in government policy on the unemployment rate

Models of economic growth

- The Malthusian model: no role for technological advances
- The Solow model: growth based on exogenous technological advances

Two-period models of the macroeconomy

- Consumption and savings decisions
- Ricardian equivalence, applications of the two-period model
- Firm's investment problem
- A real-intertemporal model with investment; applications
- A money-intertemporal model: monetary policy to stabilize business cycles

Business cycle theories

- Equilibrium models: the real business cycle model, the Keynesian coordination failure model, and a New Monetarist model
- What causes business cycles and what, if anything, can government policy do to stabilize these cycles
- A New Keynesian model: sticky prices and wages and their implications for economic policy

Academic Integrity

McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offenses under the code of student conduct and disciplinary procedures (see <http://www.mcgill.ca/integrity/> for more information).

L'université McGill attache une haute importance à l'honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l'on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l'étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter le site <http://www.mcgill.ca/integrity/>).