

Econ 112
Principles of Macroeconomics
Fall 1996

Instructor: Dr. Frank Maddox
316 Seney Hall
Phone: 784-8357
Office Hours: MWF 10:00 - 12:00
TTh 11:00 - 12:00; 1:00-2:00

Course Description: Econ 112 presents the main national economic issues of unemployment, inflation and economic growth in the context of a theory of national income determination. The course begins by describing the economic problems facing every society and the possible ways that society can organize itself to solve these problems. The laws of demand and supply are examined.

Next, the measurement of the flow of national income and its major components, such as consumer spending, is summarized. These concepts become the basis for an explanation of the size of the total flow of income, and for policy recommendations to influence the size and stability of that flow. Aggregate demand for final output and aggregate supply of it are used to analyze business cycles, the deficit and fiscal policy. After describing money and the banking system, the role of the Central Bank in setting monetary policy is presented.

The twin problems of unemployment and inflation are then put into a theoretical, historical and policy perspective. The analysis is extended to include the balance of international payments and the foreign currency exchange markets. The course concludes by examining factors that contribute to the long run growth of national income and the development of the infrastructure of an economy.

Course Objective: The goal of Econ 112 is to develop a framework which the student may use to analyze the overall behavior of modern national mixed capitalist economics. This framework introduces the student to the economic way of thinking about the macro-level forces at work in society which shape economic performance and guide economic policy. Performance and policy then feed back to influence the business and social environment.

Method of Instruction: Econ 112 is taught through a combination of lecture, discussion, homework and examinations. Class interaction allows the students to discover the strengths and weaknesses of past and current policy executed by U.S. policy-makers. A series of outside readings, which explore normative views of the economy, will provide students with insight into the dynamic construct of modern economic institutions. The derivation and manipulation of models covered in the course is

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presented on a series of 15 minute videos available at the reserve desk at the library.

Text and Other Material Required to be Purchased by Student:

McConnell, Campbell R., and Brue, Stanley L., Economics, 13th edition, McGraw Hill Publishing Company, 1995.

The Wall Street Journal (sign-up sheet will be circulated first week of class).

Examinations, Homeworks, and Quizzes: There will be three in-term exams and a comprehensive final examination. Several homeworks will be assigned during the semester. No late homeworks will be accepted. Several announced quizzes will be given during the semester. Students will not be allowed to make-up quizzes.

Grading Policy: Each in-term exam accounts for 21% of the course grade. The final exam accounts for 25% of the grade. Quizzes and homeworks combined are worth 12% of the grade. Exams and homeworks/quizzes will be graded numerically. Your numerical average will be converted into a letter grade:

A	= 94 up to 100
A-	= 90 up to 94
B+	= 87 up to 90
B	= 84 up to 87
B-	= 80 up to 84
C+	= 77 up to 80
C	= 74 up to 77
C-	= 70 up to 74
D+	= 67 up to 70
D	= 60 up to 67
F	= 0 up to 60

Attendance Policy: Attendance is required and will be recorded each class period. One point will be deducted from the student's final numerical course grade for each absence in excess of five absences.

Make-up Examination Policy: Make-ups exams will be permitted only with written support (approved by the instructor) of serious situations which preclude the student's ability to take the exam during the scheduled time.

Important Dates

September 27 - Exam I

October 2 - Last day to drop without academic penalty

October 14-15- Mid-semester break

November 1 - Exam II

November 27-29 - Thanksgiving Recess

December 6 - Exam III

December 12 - Final exam @ 9:00-12:00 a.m. for 1:00 p.m. classes.

December 17 - Final exam @ 2-5 p.m. for 9:00 a.m. classes.

Course Outline

Week 1; August 28-30

The economic way of thinking and an overview of the main themes of the course. Review of basic math and graphs. Pitfalls to objective thinking. The foundation of economics. Economics and efficiency. the "Isms."

Chapter 1. The Nature and Method of Economics

Chapter 2. The Economizing Problem

Week 2; September 4-6

Capitalist ideology. The Circular flow model of an economy. The market as an institution. Supply and demand analysis. Concept of Equilibrium.

Chapter 3. Understanding Markets: Demand and Supply

Chapter 4. Pure Capitalism and the Circular Flow

Week 3; September 9-13

Households as the economy's income receivers. Households as spenders (Consumption). The business population. Legal forms of business. The foreign sector. The five fundamental questions and the market system at work. The economic functions of government. Government finance.

Chapter 5. The Private & Public Sectors

Chapter 6. U.S. in the Global Economy

Week 4; September 16-20

Measuring domestic output. The importance of measuring our production via Gross Domestic Product. The expenditure vs. income approach to calculating GDP. Other social accounts. Price level measurement. Nominal vs. real GDP. The business cycle. Unemployment. Inflation and its effects upon the economy.

Chapter 7. Measuring Domestic Output

Chapter 8. Macroeconomic Instability

Week 5; September 23-27

Review and catch-up on Monday

*****September 27 - Exam I - Chpts. 1-8

Week 6; September 30 - October 4

The Classical Theory of Employment. The revolution of Keynes. Classics and Keynes revisited via AS-AD. Tools of Keynesian Employment Theory. Consumption and Investment Functions. Expenditures-output approach to equilibrium. Leakages-Injections approach to equilibrium. Planned versus Actual Investment. The expenditure multiplier. Equilibrium versus full-employment output.

Chapter 9. Building the Aggregate Expenditures Model

Chapter 10. Aggregate Expenditures

Week 7; October 7 - 11

AS-AD. Fiscal policy. Legislative mandates. Discretionary versus built-in policy. Problems, criticisms and complications associated with fiscal policy.

Chapter 11. Aggregate Demand and Aggregate Supply

Chapter 12. Fiscal Policy

Week 8; October 14-18

The functions of money. The supply of money-- what backs it. The money market. Finance in the U.S. Thrift failures. The Goldsmith banks. Commercial banking in the U.S. Money creation via multiple-deposit expansion.

Chapter 13. Money and Banking

Chapter 14. How Banks Create Money

Week 9; October 21-25

Objective of monetary policy. The tools of monetary policy. OMO, reserve ratio, discount rate. Effectiveness of Monetary Policy. Difference between monetarists and Keynesians. Basic monetary equations. Velocity. Policy Debates Rational Expectations.

Chapter 15. The Fed and Monetary Policy

Chapter 16. Alternative Views on Macro Theory/Policy

Week 10; October 28- November 1

Review and Catch-up on Monday

*****November 1 - Exam II - Chpts. 9-16

Week 11; November 4-8

The Phillips Curve. Stagflation- a double whammy. The Natural Rate Hypothesis of unemployment. Demand-pull, cost-push inflations. Market Policies. Supply-side economics. Deficits vs. Debt. Budget Philosophies. Economic Implications of the debt.

Chapter 17. The Inflation-Unemployment Relationship

Chapter 18. Budget Deficits and the Public Debt

Week 12; November 11-15

Ingredients of Growth. Accounting for Growth. The Productivity Slowdown. Growth Policies. The importance of world trade. The basis for international trade-- comparative advantage. Trade barriers. Protectionism. International trade policies.

Chapter 19. Economic Growth

Chapter 37. International Trade

Week 13; November 18-22

Financing international trade. The international balance of payments. Exchange rate systems.

Chapter 38. Exchange Rates and Balance of Trade

Week 14 & 15 ; November 25-27 & December 2-6

Review and Catch-up

****December 6 - Exam III - Chpts. 17-19, 37, 38.