

**MCGILL UNIVERSITY**  
**ECONOMICS 330D (Section 02, CRN 1672)**  
**MACROECONOMIC THEORY (MAJORS)**

**COURSE REQUIREMENTS AND READING LIST**

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Office Hours: M, W 3.00 - 3.45 p.m.; F 12:10-12.30 p.m.

**2010-11.**  
**M, W 4-5.30 p.m.**

**PURPOSE OF COURSE**

Macroeconomics is one of the two (the other being, Microeconomics, fundamental parts of economics, so that no study of economics can be complete without a good knowledge of it. It also underlies many of the more specialised subjects in economics.

Macroeconomics is also one of the most interesting parts of economics. Many find it to be the most interesting part. Its knowledge is essential for understanding what determines such important issues as the standard of living, economic growth, inflation, recessions and booms in the economy and the level of unemployment, the pursuit of economic policies by the government and the central bank, etc.

This course has two main objectives. One of these is for the students to acquire a rigorous understanding of macroeconomic analysis. This will be imparted through the use of verbal arguments, diagrams and high school mathematics. While some knowledge of calculus makes it easier to understand many of the theories in economics, this course will not require such knowledge. However, the ability to manipulate simple equations and do other derivations at the level of high school mathematics will be presumed and is essential to doing well in this course.

The second objective of the course is for the students to learn to *apply* economic analysis to explanations of the macroeconomic aspects of the economy. This requires knowledge of particular aspects of the actual economy, their representation in numerical data and diagrammatic forms, and the ability to interpret the patterns in the data and graphs, so that economic analysis can be used to explain the discerned patterns.

The tests, term paper and exam will require knowledge of the material conveyed in the lectures, in the textbook and any other materials assigned in the class. Attendance at all the lectures is essential.

**CLASS DISCUSSIONS ON TOPICAL MACROECONOMIC ISSUES:**

Besides the lectures on the material covered by the textbook, I intend to devote a part of each class to a general discussion of macroeconomic issues raised by the students. The students are expected to read the business sections of newspapers and magazines. They will be free to raise any macroeconomic questions that they wish. Each student will be required to participate in the class discussions. Some of the questions in the tests and the final exam are likely to be based on topics covered in these discussions.

[If any student would also like to discuss a specific published article, he or she can give me a photocopy of the relevant article and we will discuss it in a subsequent class.]

**University's Statements:**

*In accord with McGill University's Charter of Students' Rights, students in this course have the right to **submit in English or in French** any written work that is to be graded.*

*McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see <http://www.mcgill.ca/integrity> for more information).*

*In the event of extraordinary circumstances beyond the University's and instructor's control, the content and/or evaluation scheme in this course is subject to change.*

*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>).*

**TEXTBOOK:**

**JAGDISH HANDA, *MACROECONOMICS*, World Scientific Press, 2010.**

[Note: The publication of this book was scheduled for June but has been delayed to mid-September. I expect it to become available in late September. Until it reaches the bookstore, I will post on WebCT the relevant chapters being covered in the class.]

**ADDITIONAL MATERIALS:**

Additional questions on each of the chapters, past exam papers, and other materials will be posted on the course WebCT.

Do check the course WebCT site regularly.

**COURSE REQUIREMENTS:**First term:

2 tests (Tests I and II) spaced during the term -- each worth 15% of the final grade for the course.

There will not be a mid-course exam in the December exam period.

Second term:

1 term paper: worth 20%

1 test (Test III), worth 15%, in February or March.

Final Examination (in April):

Worth 35% [See later for the weight on this exam if any of the tests or the term paper is missed]. The final exam will be on material not covered by Tests I and II but will include all material covered beyond Test II. In particular, it will include material covered by Test III. [Therefore, the final exam will include some material from the last two or three weeks of the first term as well as all material covered in the second term.]

RETURN TO THE STUDENTS OF THE TEST ANSWERS AND THE TERM PAPER, AND RE-GRADING PROCEDURES: After grading, the tests' answer books and term papers will be handed out at the ends of *two* classes *only*. They cannot be collected from my office or in any other way. If you miss the first time they are handed out, be sure to attend the following class and collect it at the end of that class. The procedure for the re-grading of the tests and term paper is as follows: within one week of the second class at which your test or term paper is returned, you can return it to me and request a 're-read'. I will re-grade it anew. The new grade will replace the old one and could be higher or lower than the initial one.

Bonus marks: 1 mark (per error shown) will be added to the final grades of each of the first 3 students (to establish their claim and the timing of their claim in writing through a written note or by e-mail) who show an analytical error in the textbook or in the CD Study Guide. An admissible error can be in the verbal argument, mathematical derivation or a sign. To claim the mark, you have to provide the chapter and page numbers, the correction, and the reasoning or derivation of the correct answer. [I will note the date and time of receipt and decide who gets the marks for each correction.] While bonus marks will not be allocated for grammatical errors, etc., I would appreciate being informed of any mistake (including grammatical errors, typing errors, punctuation errors, spacing, etc.) of any kind.

Dates of the tests: The date for each of the tests will be announced one week earlier in the class. It is the responsibility of the students to become informed of the date and material covered in each of the tests.

**MISSED TESTS OR/AND TERM PAPER:** If you miss -- or choose not to do -- any of the tests or do not submit the term paper by its specified deadline (see below), the weight on the final exam will be correspondingly increased. Medical or other notes are not required for missed tests or for not submitting the term paper. *Warning:* do not plan to miss any of the tests or not submit the term paper. Doing so will mean that you will learn less in the course and that you

will incur the risk of a higher weight on your final examination. [Note: The weights on the tests, term paper and the final exam will not, and cannot, be later altered from the above specification].

**SUPPLEMENTARY EXAM** (worth 100%), **DEFERRED EXAM** (will replace the final exam and have the same weight as the final exam). The format and coverage of both these exams will also be as for the final exam.

*HOMEWORK*: Students are required to do all the problems and questions at the end of each chapter of the textbook. This work is not to be handed in for correction or grading but will form the basis for the conferences with the teaching assistants.

*EXAMINATIONS AND TESTS* will be based on material covered in the class and conferences, in the textbook, in the Study Guide, materials placed on WebCT and in any other assigned readings.

*CONFERENCES (with the TA)*: Attendance at these conferences is a required part of the course. Conferences usually start in the third week of the fall term.

**CALCULATORS**: You will need a non-programmable calculator for this class and its tests and exams. You will not be allowed programmable calculators in the tests and exams. If you bring a programmable calculator to the tests and exams, you will not be allowed its use and will have to do your calculations manually.

**ECON 330D (Section 02), 2010-11  
READING LIST FOR THE FIRST (FALL) SEMESTER**

*Part I: Introduction*

1. INTRODUCTION: OUTPUT, UNEMPLOYMENT AND THE BASIC CONCEPTS
2. INTRODUCTION: MONEY, PRICES, INTEREST RATES AND FISCAL DEFICITS
3. INTRODUCTION TO THE OPEN ECONOMY

*PART II: Aggregate demand in the economy*

4. DETERMINANTS OF AGGREGATE DEMAND
5. AGGREGATE DEMAND IN THE OPEN ECONOMY UNDER AN INTEREST RATE TARGET: IS-IRT ANALYSIS
6. AGGREGATE DEMAND UNDER A MONEY SUPPLY OPERATING TARGET: IS-LM ANALYSIS  
[Note: this chapter will be omitted this year from the course and its exams. Students who want to learn the IS-LM analysis can do this chapter on their own.]

*PART III: The determination of output and employment*

7. FULL EMPLOYMENT OUTPUT AND THE NATURAL RATE OF UNEMPLOYMENT
8. OUTPUT IN THE SHORT-RUN: THE ROLE OF EXPECTATIONS AND ADJUSTMENT COSTS
9. OUTPUT IN THE SHORT RUN: STICKY PRICES AND IMPLICIT CONTRACTS
10. ACTUAL OUTPUT, DISEQUILIBRIUM, AND THE INTERACTION AMONG MARKETS  
[Note: it is unlikely that there will be time in the fall term for covering this chapter, in which case its coverage will be postponed to the winter semester.]

**WINTER TERM:**

If there is not sufficient time in the fall term to cover some of the above topics, they will be covered in the winter term.

The topics covered in the winter term will be the remaining chapters of the textbook.

### TERM PAPER SPECIFICATIONS

An important part of this macroeconomics course is the writing of a term paper on a macroeconomic topic.

#### **TOPIC:**

Select a macroeconomic variable for a country (you choose the variable and the country) and explain its determination, using macroeconomics analysis learnt in the course and data for at least 20 years ending in 2009. [Note that the last year which your study *must* encompass is 2009, unless you obtain prior *written* permission from me. This permission is only given if you can show that the relevant data for 2009 is not available for your chosen country]. Your data can be annual or quarterly.

**OTHER TOPICS:** *Your topic and its format must meet the above specifications. For any variations away from it, you must have my written approval before the end of the Fall term. Note that if your paper does not fit the specified parameters for it and you did not get my written approval (e.g., for a topic, length, etc.) outside the parameters, you will get a reduced grade and quite likely a zero grade on your submission, without a chance at rewriting.*

Students can on an individual basis select a topic for their country of choice and collect the data on their own. Alternatively, they can collect the data and other information as members of a group. In the latter case, if a group chooses a common country, each student will select a specific topic, different from that of the other members of the group. For example, a group could select China as the country and a particular student could study the consumption function in it, while another chooses to study inflation in it. Or the group could select inflation as a common topic and each member of the group would select a different country to study its inflation rate.

#### **Common sources of data:**

- i. *CANSIM*
- ii. *International Financial Statistics (IFS)*, published by the IMF.
- iii. *Main Economic Indicators*, published by the Organisation for Economic Co-operation and Development (OECD).  
[www.oecd.org/statistics](http://www.oecd.org/statistics)
- iv. *UN World Tables*.
- v. Economist Intelligence Unit's country and other studies and data tables.
- vi. Data from national sources such as the country's national Income and expenditure accounts, labour market reports, consumer reports, and so on.

Before you commit to a country/topic, be sure to check that you will have access to the needed data.

The data must cover a period of 20 years or more ending in 2009 (inclusive). If your data is only available for a shorter period, submit *two* copies of a request in hard copy or by e-mail, specifying your chosen topic and country, and the problem with the availability of the data and the period you intend to use. If I agree, I will indicate my written approval on one of the copies and return it to you or reply to your e-mail message. Use quarterly data, if possible.

#### **ORGANISATION OF THE TERM PAPER:**

Each paper submitted must reflect the student's own effort and knowledge. Each paper must have seven parts:

1. **Introduction:** Here you will specify your topic. An example is the growth rate of GDP in Canada. It will also specify your time period and explain why you chose this topic (i.e. why is it interesting and important to you.).
2. **Dependent variable:** Focusing on your chosen dependent variable, present the empirical information on it in the form of data and time-series graphs and/or scatter diagrams, depending on what is more appropriate or useful for the topic chosen. Explain trends in the data and highlight distinctive episodes in it.
3. **Theoretical analysis.** This part of your case study will be a succinct application of the relevant theory or theories that explain the determination of your chosen dependent variable. Decide on the main explanatory variables. Use at least 3 or 4.
4. **Interpretation and explanation.**

In this part, present the data or/and graphs related to your explanatory variables. You may want to graph each of these against your dependent variable.

Use the data on the explanatory variables and the relevant macroeconomic theory to explain the patterns in the data on the dependent variable. Do they provide a good explanation? If not, were there other -- possibly non-economic events -- which were also important?

If you know how to use regression analysis, you can use a statistical software package in your analysis. If you do so, use multiple regressions. Mention in the paper which software you used. However, the use of regressions is not a required element of the term paper.

**5. Conclusions.**

**6. References.** A detailed list of your data sources together with the references (including your textbook) you have used and cited in the paper is to be included. You must use a standard format for punctuation and presentation of each reference. You can see the format in any journal in economics or that in your textbook.

**7. Data appendix.** All the data you used for your analysis is to be provided in tables and must list sources, including electronic addresses and file names or web references. In general, download your data from Internet sources, using Excel.

**LENGTH:** Papers are to have a *maximum* length of 10 pages, double-spaced (*excluding* graphs and tables); font size 12 points and paper size 8.5" by 11" with 1" margins. Do not deviate from these specifications.

*As part of your preparation for your paper, you should learn a spreadsheet package such as Excel and a word processing package such as MS Word. Ability to use a statistical software package would also be useful, but is not required for this term paper.*

**DEADLINE FOR SUBMISSION OF THE TERM PAPER (HARD COPY):**

You must submit your paper in hard copy by 4.00 p.m. on or before Monday, February 7, 2011. You can hand it to me at the end of any class prior to this deadline, or put it in my mail box in the economics department office (L 443) by 4.00 p.m. on Monday, February 7, 2011. Papers cannot be submitted by e-mail or in any form other than hard copy.

**SUBMISSION DEADLINE: Monday, February 7, 2011, latest time: 4.00 p.m. in my mail box in 1443, or slid under my door in L525.**

**Recommendations:**

- (A) Decide on your topic and collect the data by the end of the first term.
- (B) Plan to finish the draft of your paper two weeks in advance of the deadline.
- (C) Plan to finish and submit your paper *one week earlier than the deadline*.

**Late submissions:**

- Submissions after the deadline will carry an automatic penalty of 20% of the grade on the paper per week or part of each week.
- The penalty for submissions after the deadline is never waived, except *possibly* for very serious illnesses over several (i. e., more than one) weeks just prior to the submission deadline. If you have a medical reason, attach to your paper a medical note from a doctor, specifying both the illness and its duration. With such a medical note, a maximum delay in submission of one week will be granted.
- If you do not submit the term paper, the weight on the final exam (not on the tests) will be proportionately and automatically increased. [You do not need to submit a formal request for this to happen.]

**Failure to submit a paper**

If you choose not to submit the term paper, its weight of 20% in the course grade will be transferred to the final exam.

**Plagiarism: DO NOT DELIBERATELY OR INADVERTENTLY COMMIT PLAGIARISM.**

Students are warned that they must not plagiarise. They must not submit any writing or part of any paper - or present even orally in class - any paper, proposal, etc. which has been copied - even though translated from/into another language - from other sources, or is wholly or partly the work of another person, or, even though the student's own work, has been submitted by the student in any other course. In cases of suspected plagiarism, the *McGill Code of Student Conduct and Disciplinary Procedures* imposes penalties and a special procedure that requires referral of the case to the Associate Dean for a formal determination.

A good procedure for not inadvertently committing plagiarism is to read and understand your source material, close it and then proceed to develop and write your own notes from your memory. If you have quotations, you must put the copied material in quotation marks and specify the relevant page numbers from the original. You must list the references used at the end of the paper.