

The American University
Department of Economics

Spring Semester 2008

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Econ 100.005 - MACROECONOMICS

Macroeconomics is one of the seven foundation courses in Curricular Area 4 (Social Institutions and Behavior) in the University's General Education Program. The main purpose of this area of the university curriculum is to foster better and more operational understanding of various social institutions as well as pertinent issues that challenge policy makers in our increasingly interdependent world.

COURSE OBJECTIVES

The objective of the Macroeconomics course is to introduce students to the concepts and tools for a better understanding of the workings of the economy. It aims to give students a better sense of how economic institutions function and what economic thinking lies behind the varied attempts of governments and international organizations to deal with economic growth, employment, inflation and sustainable, economic development. While our emphasis is on the US economy, this course will also take an international dimension with a look at the global economy since we live in an increasingly interdependent world.

The course will begin with an overview of economics as a social science discipline and the US economy in a global setting. This is followed by a historical survey of the evolution of modern economic institutions and economic thought. You will then be introduced to the macroeconomic problems that most economies of the world, including the United States, today face and the various macroeconomic theories and analytical models which offer alternative explanations and solutions (policy options). Analyses of real world economic

Throughout the course, we will spend time not only in understanding the theories and other tools used by economists but also in discussing the applicability of the theories to real world issues and concerns. These economic tools are intended to help you understand current socially and politically relevant economic questions, such as:

- ✓ What causes the decline in the value of the US dollar relative to the Euro and Canadian dollar?
- ✓ Will tax cuts likely stimulate the economy and create jobs? Why or why not?
- ✓ Is economic growth always a good thing? For whom?
- ✓ What explains the business cycle and is there a need for government intervention during a recession?
- ✓ How does the recession in Japan affect the Unites States economy?
- ✓ How does the Federal Reserve function and how does it use interest rate changes to manage the economy?
- ✓ Does outsourcing create unemployment or not? Does unemployment affect whites and African Americans similarly? What about women and men?
- ✓ How do changes in the price of oil affect the economy?

- ✓ Should countries count and value housework as part of its national output? Why or why not?

ACADEMIC INTEGRITY, STUDENT OWNERSHIP AND RESPONSIBILITY

Standards of academic conduct are set forth in the University's Academic Integrity Code. Please read it online http://www.american.edu/handbook/policies_guidelines.htm#aic. As a registered student, you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the Academic Integrity will be treated seriously, and disciplinary actions will be taken should such violations occur. Plagiarism and cheating are not tolerated in this class.

I trust that students in this course will follow the Academic Integrity Code of the University in their exams, assignments and papers. With regards to the last requirement, make sure that you cite your sources or references properly; avoid any form of plagiarism. I encourage you to work with your fellow students for review or to discuss the lectures and assigned materials in class, but what you hand in or present to meet the requirements must be your OWN work.

CLASSROOM RULES, OFFICE HOURS AND HELPFUL TIPS

Attendance is important in this class. I strongly recommend that students read the relevant reading material AHEAD before coming to class. The Blackboard is an important tool in this course, along with lectures and tutorials. I will pose suggested review exercises at the end of each chapter of Colander as well as food for thought questions that serve as review guides for your exams. I strongly encourage you to do these exercises after each chapter to test your understanding. Some of these exercises will be assigned as homework that must be submitted at certain due dates. Students are encouraged to ask questions and participate in classroom discussions and in tutorials.

I would appreciate it if you observe strictly my office hours (see above). If this is not convenient, you may set up an appointment ahead of time during other times (please send advanced notice for this). My teaching assistant and I are available to help you in going through some of the more difficult/technical part of this course. Tutorial/review sessions (50 minutes) as well as SI assistance sessions will be arranged on a periodic basis and they are important supplements to the course. The TA will give exercises to assist you in your homeworks and in your review for exams as well as entertain questions you may have on the lectures. The tutorial schedule will be given once the meeting times and classroom arrangements are determined. PLEASE take note of the scheduled tutorial dates and times.

COURSE MATERIALS

- I. Required Texts: (Available in the Bookstore and Library Reserve)

Colander, David, **Macroeconomics**, Richard Irwin, Inc., Illinois, 2008 (seventh edition).
 Dollars and Sense, **Real World Macro**, 24nd Edition, 2007
 Heilbroner, Robert, **The Worldly Philosophers**, Simon and Shuster, Inc. 1999.

In addition, handouts will be given occasionally. Students are also encouraged to read on current events in the major newspapers such as the Financial Times, the Economist, the New York Times and the Washington Post, (articles must be current or published in Jan- April 2008) particularly those relevant to the topics of current class discussion.

COURSE GRADING AND REQUIREMENTS

Your grade is based on:

Three Exams	(60%)
Class Assignments and Attendance	(15%)
Reaction Paper	(10%)
Social Classroom Learning Project	(15%)

I. Exams (60%)

There will be three short exams (20% each).

First Exam	Feb 21
Second Exam	March 24
Third Exam	April 28

Important note: **THERE WILL BE NO MAKEUP EXAMS.**

II. Assignments and Attendance (15%)

There will be two (2) written homeworks prior to each exam. They are practice exercises and are meant to help you understand the materials to be covered in the tests. These homeworks, together with attendance, constitute 15% of your grade. Some involve questions at the end of the book and others will involve problem solving or economic analysis of data. Please note that each assignment will have 2 points (out of 10) lowered for each day past beyond the due date (class period).

You are expected to attend all of the classes and tutorials during the semester. There will be occasional "pop attendance checking." You will not be penalized for one(1) unexcused absence from a class meeting. However, during class meetings with "pop attendance check" will subtract one (1) point from your attendance part of your grade. Absences will be excused for medical reasons (with documentation) only.

Note about tutorials and SI:

The tutorials and SI meetings for this course are meant to help you understand some of the more challenging concepts and economic tools. The tutorial sessions are 50 minutes in length. In addition to going over the homeworks, there will be specific questions posted in the blackboard that will be discussed in the tutorials only. You will not be penalized for absence from a tutorial but good attendance (of 4-6 tutorials) will earn additional 1-3 points in your final grade.

III. Reaction Paper (10%)

Each student is required to write a reaction paper and a critical evaluation of either

- a relevant news article from the Financial Times, New York Times, the Washington Post, the Economist, and/or Wall Street Journal (published between January and April 2008) related to any of the main topic in the course; or
- a set of two (or three) related articles in the Real World Macro that are not assigned in class.

Due date: April 3, Thurs (in class) (no exceptions)

What is a reaction paper?

A reaction paper should be an informed analysis and commentary of either a newspaper article or an article (Not used in class) in the book, *Real World Macro*. It should consist of the following four parts:

- 1) a brief summary (one or two paragraphs only) of the salient points of the article.
- 2) Clear definition of the economic issue(s) in your own words. (Explain the issue(s) being addressed using the economic tools/concepts you have learned in class and discussed in Colander and Heilbroner. Be creative – use a graph to illustrate your point if relevant.
- 3) Provide a policy recommendation or solution to the problem (which may be similar or different from the author's view) and
- 4) Explain the expected outcome (using economic theory) of your policy recommendation.

The paper should be typewritten, double-spaced and have a maximum length of 3 (three) pages (in 12 inch font). You should attach a copy of the news article (or cite the 2-3 related Dollars and Sense articles) with your paper. PLEASE MAKE NOTE THAT THE DUE DATE IS MARCH 17. Late papers submitted past beyond the class period of the due date will have the grade lowered by one half letter grade for each day (or fraction thereof) beyond the due date it is not turned in.

The paper will be graded based on (i) the student's ability to integrate economic concepts/tools and class reading materials into his/her analysis of the issue(s) (40%), (ii) the clarity and logic of the analysis of the economic problem and corresponding recommendation (30%), (iii) the organization and adherence to the guidelines of the paper (including citation of references, etc) (20%) and (iv) writing skill and general appearance of the paper (spelling, etc, (10%). Make sure that proper citations of references are made as this will be part of the grading.

DUE DATE: MARCH 17 (in class) No exceptions.

IV. 'Social Classroom' Learning Project (15%)

This requirement takes you out of the classroom and beyond learning from class lectures and textbooks. Choose an economic issue, concern or topic covered in the course and then conduct an **investigative learning project** that involves any one (1) of the following:

- a) Designing a small survey, choosing a sample and conducting interviews to learn more about a particular economic issue or problem discussed in class, or a particular product/service in AU community or DC neighborhood. For example, you can examine the factors that affect supply and demand, customers' tastes, etc. (Note that a description of your survey design and sample selection method as well as list of interview questions and the names and contact info must be given in the appendix). Please note that there are guidelines on ethics and confidentiality that you need to follow.
- b) Working with/volunteering in an organization (of economic nature e.g. business, government agency, international organization; or a non-profit organization whose work is related to poverty, employment, economic policy advocacy, welfare, such as a shelter or soup kitchen) for a few (at least 2) days and describing/reflecting on your experience and what you have learned in class. You must provide a description of your work, the nature of organization and the number of days work as well as contact no in the appendix).
- c) Attending two (2) related congressional hearings in Capitol Hill or a conference (at least one full day) on an economic issue we covered in class – either at AU or in downtown Washington DC (IMF, WB, John Hopkins University, Georgetown University, George Washington University, University of Maryland, etc.).

PROJECT PRESENTATION AND REPORT DUE DATE: May 5.

In place of finals, you will make a 3-4 minute presentation during the final examination period.

Guidelines:

- You will organize the entire project and work out the logistics among yourselves. You can work individually or as a team of two(maximum) people. You can go as a group to a conference or congressional hearing but each student or team will have to submit their own report.
- Each report should describe what you have learned about economic issues/policies and concerns and policy making in the real world (4 page maximum for individual reports; 6 page maximum for two person report) on day of final exam period, May 1. NO extensions will be given.
- The report should consist of a 1) cover page, 2)a brief description of the main economic issue/policy that you want to examine, 3) background info on the conference, hearing, organization or a description of the survey or interview methodology, and most important, 4) what you have learned from your project - analysis of the discussions or survey/interview results, your reflection, thoughts and ideas based on your project experience.
- A good project must reflect good economic reasoning and application of any tools learned in class. It should be informative, thoughtful, and reflects your curiosity on a particular economic topic, your resourcefulness and creativity. Some questions to reflect upon (depending on your project):
 - - *What has happened, regarding new learning in the interviews, hearings, conference or your volunteer work environment, that you did not expect? How is the real world different or similar to what you have learned in class?*
 - *What do you know now that you wish you had known before you began the project?*
 - *What were the most valuable aspects of your experience academically and personally?*
- If you are working as a team, be sure to make plans ahead with your partner and be sure to agree on a fair way of sharing the work.
- Your grade will be based on 1) relevance and ability to connect the project with concepts and tools learned in class (20%) the rigor of your economic reasoning and analysis (40%), 2) creativity and resourcefulness (30%), 3) writing skill, appearance (spell check, etc) and adherence to guidelines of structure(10%).

Date of submission of topic and plan (one paragraph): April 3

Date of submission and presentation of report: May 1, thurs 8:30 am-11 am. (NO extensions will be given)

A Word of Advice:

If this course does not fully meet your expectations, I advice you to drop it at your earliest convenience. Students will be asked at the beginning of the semester to read carefully the rules and course requirements. Once they are agreed upon, it is the student's responsibility to follow them.

(NOTE: THE SCHEDULE MAY CHANGE. YOU WILL BE ADVISED OF ANY CHANGE AHEAD OF TIME).

Week I (Jan 14, 17): Introduction to the Course.

Required Readings: Preface (pp. xi-xiv) Chapter 1: Economics and Economic Reasoning

WEEK 2 (Jan 21, 24): Trade, Government Policy and the U.S. Economy

Required Readings:

- Chapter 2: Trade, Tradeoffs, and Government Policy
- (REVIEW) Appendix A: Graphish: The Language of Graphs
- Chapter 3: The Evolving U.S. Economy in Perspective
- Real World Macro, Articles: 8.1 (What is Globalization?), 8.2 (The Gospel of Free Trade).

WEEK 3 (Jan 28, 31): HISTORY OF ECONOMIC THOUGHT

The Contributions of Adam Smith

Required Readings:

- Heilbroner, Chapters 2 (skim as background) and 3 (pp.53-74)
- Short Excerpts from Adam Smith, *The Wealth of Nations* (**Handout**)

Classical Economists: Ricardo, Malthus and Marx

Required Readings:

- Heilbroner, Chapter 4 (pp. 78-84; 94-104); Chapter 6 (pp. 144-148; 154-169);

Homework 1: due Jan 31 (in class)

WEEK 4 (Feb 4, 7): HISTORY OF ECONOMIC THOUGHT:

Classical Economists and the Rise of Neoclassical Economics

Required Readings:

- Heilbroner, Chapter 6 (pp. 144-148; 154-169); Chap 7 (pp.172-77 and 199-212).
- Real World Macro, Articles 7.4 The Basics of Marxist Economics
- Short Excerpts from Alfred Marshall, *The Principles of Economics*, (**Handout**)

The BASICS OF SUPPLY AND DEMAND

- Chapter 4: Supply and Demand

WEEK 5 (Feb 11, 14): APPLICATION OF SUPPLY AND DEMAND ANALYSIS

Required Readings

- Chapter 4: Supply and Demand (continued)
- Chapter 5: Using Supply and Demand (pp. 110-125)
- Real World Macro Art 8.11 (IS it Oil?)

Homework 2: due Feb 14, (in class)

WEEK 6 (Feb 18, 21): FIRST EXAM AND CONTRIBUTION OF JOHN MAYNARD KEYNES

FIRST EXAM

Heilbroner, Chapter 9 (pp 248-253; 263-280)

WEEK 7 (Feb 25, 28)

THE CONTRIBUTION OF JOHN MAYNARD KEYNES (contd)

Required Readings:

- Heilbroner, Chapter 9 (pp 248-253; 263-280)
- Real World Macro, Article 7.3 (Life After Keynes)
- Short excerpts from John Maynard Keynes, The General Theory of Employment, Interest, and Money" and "Inflation and Deflation" (Handout)

MACROECONOMIC CONCERNS

- Chapter 6. Economic Growth, Business Cycles, Unemployment and Inflation

WEEK 8 (March 4, 7)

MACROECONOMIC CONCERNS (contd)

- Chapter 6. Economic Growth, Business Cycles, Unemployment and Inflation

Real World Macro Articles 1.4 (Unemployment Rate Deception), Art 6.5 (Blackworkers Need more than an Economic Boom).

NATIONAL INCOME ACCOUNTING

- Chapter 7: National Income Accounting

Homework 3 Due : March 7 in class

March 11-15 SPRING BREAK

WEEK 9 (March 18, 21)

NATIONAL INCOME ACCOUNTING (contd)

- Chapter 7: National Income Accounting
- Real World Macro, Article 1.3 (Wages for Housework)

Homework 4 due: March 21, No exceptions given.

WEEK 10 (March 24, 27)

SECOND EXAM

GROWTH, PRODUCTIVITY AND WEALTH OF NATIONS

- Chapter 8: Growth, Productivity, and the Wealth of Nations (pp. 190-198)

Week 11: (March 31, April 3)

GROWTH, PRODUCTIVITY AND WEALTH OF NATIONS

Required Readings:

- Real World Macro, Articles 2.1 (Wealth Inequality by the Numbers) Art 2.4, (Slow Wage Growth), Art. 7.5 (Under the Margins)
- Paul Krugman (2002) "The Rich, the Right and the Facts: Deconstructing the Income Distribution Debate"
<http://www.prospect.org/web/page.wv?section=root&name=ViewPrint&articleId=5232>

The AS/AD MODEL

Required Readings:

- Chapter 9: Aggregate Demand, Aggregate Supply, and Modern Macroeconomics

Reaction Paper due: April 3, Thurs (in class)

WEEK 12 (April 7, 10)

The AS/AD MODEL (contd)

Required Readings:

- Chapter 9: Aggregate Demand, Aggregate Supply, and Modern Macroeconomics

Homework 5 due: April 14 (in class).

WEEK 13 (April 14, 17)

The FINANCIAL SECTOR AND DEMAND FOR MONEY

Required Readings

- Chapter 11: the Financial Sector
Chapter 12: Monetary Policy

WEEK 14 (April 21, 24)

MONETARY POLICY AND FISCAL POLICY

Required Readings:

- Chapter 12 Monetary Policy
- Chapter 14 Fiscal Policy and Public Finance

Homework 6 due: April 24, Thurs (in class)

April 28, Monday Third Exam

May 5, Thurs, Social Classroom Learning Project Presentation and Submission (No exceptions).

TIPS FOR SUCCEEDING IN ECON 100

Macroeconomics is a challenging and sometimes confusing subject and hard work will be required. Here are some tips for success, some more obvious than others. They were developed by the author of the textbook who has lots of experience in teaching this class and adopted by other professors as well.

1. Get the most out of the lectures and tutorials. Do each week's assigned reading before the lecture, for perspective and to know what things you need help with from the lecture.
2. Know how to take notes. Only take notes on things that you don't already know so you can benefit from listening to the lecture. Don't try to write everything down - just write down things that can be described as "That's not in the text!" or "I didn't know that!" (Note: this method only works if you HAVE read beforehand, see point (1)).
3. Understand, don't memorize. It takes about as long to understand a concept as to memorize some formula or definition associated with that concept, but understanding means a) you can answer the questions and do the problems at the end of each chapter, b) you can apply them to the assigned articles in Real World Macro and c) are prepared to do new applications of them in exam questions
4. Read key concepts and main points over several times. The text is very concise and tends to summarize the contents – be sure to understand them.
5. Don't fall behind. This course is cumulative; you will not benefit from the lectures and assignments if you fall behind.
6. Attend the tutorials/review sessions and form a study group with your SI. Meet with your group regularly and not just before an exam. By figuring out good questions to ask, the person asking questions can learn as much as the person answering.
7. Spend time going through the suggested end-of-chapter questions (posted in the blackboard) at the end of each chapter. This will make some of the questions in the homework assignment easier for you to do.
8. Check out the blackboard. It will pose some multiple-choice problems as well as food for thought (essay) questions, especially for the history of economic thought part. Some of the questions that will be on the exams are based from the homeworks and multiple-choice questions for tutorials that appear on the Blackboard.

TIPS FOR WRITING A GOOD REACTION PAPER

The Reaction Paper is a project to help build your skills in interpreting and analyzing economic related news articles and data and to help develop your ability to communicate your findings in a clear and compelling way.

Here are suggested tips for writing the reaction paper:

1. Pick a specific topic covered by the sections in the course syllabus to research.
2. Gather information on the likely points for discussion that are mentioned in the article, relating them to the analytical and empirical concepts discussed in class.
3. Write up your analysis in a clear and logical manner. It must be thoughtful, accurate and complete and it must demonstrate creative application of what we have discussed in class.
4. As always, good writing helps.

Research Sources to Consider

To gain insight on the subject being discussed in the news article(s), you are encouraged to collect additional information and analyses from library sources and/or the internet. You need to be selective however.

1. Internet searches are useful starting point, but it is important to verify the source. Where possible, it is best to use high- quality information such as government agencies (Bureau of Labor Statistics, Federal Reserve, OECD), international institutions (United Nations, World Bank, IMF), high quality and specialty newspapers or weekly magazines(Financial Times, New York Times, Wall Street Journal, the Economist), and scholarly journals and publications.
2. Make use of the AU library which has a lot of information sources electronically. A valuable portal is the Lexis/Nexis data base (from the Library home page, select ALADIN CATALOG and E-RESOURCES, under the list of 'Databases by subject', click on "Alphabetical List", then select, "Lexis/Nexis Academic Universe."
3. Properly cite any source you consult. **Plagiarism (use of other students' papers or articles/essays in internet or in print or any part thereof) is a serious violation of the Academic Integrity code and is dealt with accordingly.** Statements of other authors should be restated in your own words or make use of quotations.