

PRINCIPLES OF MACROECONOMICS
ECONOMICS 100.008
AMERICAN UNIVERSITY
SPRING 2008

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Welcome to Econ 100! The goals of this course are to introduce you to economics and to help you develop and apply “the economic way of thinking.” The economic way of thinking is a framework for critical analysis that you can apply to a wide variety of personal and social issues. It can help you focus on the gains and losses at stake in specific situations as well as the potential winners and losers created as a result of the outcome. We will also examine the role of markets in allocating resources and demonstrate the potential gains from trade.

Most importantly, we will intensively study the behavior of the economy as a whole, which is the subject of macroeconomics. Macroeconomics is concerned with explaining economic events such as recessions and trade deficits, as well as episodes of widespread unemployment and high inflation. Understanding how the economy works on a macroeconomic scale will help you develop well-reasoned answers to questions such as:

- Can government policies promote faster economic growth? Can they prevent or shorten a recession?
- Why are some countries poor while others are rich?
- What is the “Fed?” Has it done enough to offset the economic weakness of 2008? Can it manage to also contain the tendency toward higher inflation?
- How do banks create money?
- How do the candidates for president assess the economic problems facing the American economy? Do their ideas make macroeconomic sense?
- Will the recent dramatic fall in the value of the dollar help the economy? Will the trade balance improve as a result of the cheaper dollar?
- Are there risks to our economic well-being from federal budget deficits?

Economics 100 will also improve your ability to read about current events in the popular press, understand the economic issues involved, and evaluate what is being said and done—in other words, to separate the sense from the nonsense. By the end of the term, I hope you will be prepared to use the lessons of economics to help make your own life more productive, responsible, and rewarding.

Tips on how to do well in this course:

Try to find other students to work with. When doing problem sets, try working through the problems on your own first, then try to help each other out. Write up your final copy to turn in on your own. Educational research has shown that students working together learn more than students working alone.

OTHER IMPORTANT INFORMATION

Office hours: *Tuesday and Friday 1:30 - 4:00 pm and by appointment.*
Please stop by to see me at least once during the semester. You can also contact me by E-mail.

Required text: Mankiw, Gregory. Principles of Macroeconomics. Fourth edition. (New York: Thomson, 2007.)

Required readings: There are readings on e-reserves that may be accessed through the Blackboard site for this course. If you have trouble connecting to the site please see me immediately. There will also be additional readings handed out in class.

Evaluation: You will have the opportunity to be evaluated in a variety of ways over the semester. In addition to problem sets and exams, there will be two 3-page writing assignments. This portfolio of activities has been deliberately designed to allow each of you the chance to demonstrate your level of achievement in the course in the manner best suited to you.

IMPORTANT DATES:

		<u>Weight in final grade</u>
Tuesday, Feb. 26	Exam 1	20%
Tuesday, Mar. 4	Writing Assignment 1	10%
Friday, Apr. 11	Exam 2	20%
Friday, Apr. 25	Writing Assignment 2	10%
Tuesday, May 6	Final Exam (11:20-1:50)	30%
Throughout the semester	Problem sets, participation	10%

In order to pass the course, you must complete all of the formal assignments. In addition, class attendance is mandatory—that means that unexcused absences will result in a significantly lower grade than the one calculated on the weights and description above. Participation refers to performance in class discussions of ideas, problems, and articles.

PLEASE NOTE: NO LATE ASSIGNMENTS WILL BE ACCEPTED. Each problem set and writing assignment is due at the start of class on the dates listed.

THERE WILL BE NO MAKEUP EXAMS. You should make every effort to take the exams as scheduled. If you miss an exam for any reason, the final exam will receive more weight in your overall grade.

NEED HELP?

If you find yourself having difficulty with any of the ideas in the course, I encourage you to see me promptly. I can be most helpful when I have the chance to consult with you early. You can also see the teaching assistant for more help.

GENERAL EDUCATION REQUIREMENTS:

This course, ECON 100 Macroeconomics, is one of four foundation courses in Cluster 1 of Curricular Area 4 (Social Institutions and Behavior) in the University's General Education Program. It is the first of a two-course sequence. You must take one of the following courses in order to complete the General Education requirements for Cluster 1 of Curricular Area 4:

AMST-240	Poverty and Culture
COMM-275	Dissident Media: Voices from the Underground
ECON-200	Microeconomics
EDU-200	Schools and Society
FIN-200	Personal Finance and Financial Institutions
GOVT-210	Political Power and American Public Policy
GOVT-215	Civil Rights and Liberties
PHIL-240	Ethics in the Professions
SOCY-210	Inequality: Class, Race, and Ethnicity
WGST-225	Gender, Politics, and Power

ACADEMIC INTEGRITY:

Standards of academic conduct are set forth in the University's Academic Integrity Code. By registering at the university, you have acknowledged your awareness of the Academic Integrity Code and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the Academic Integrity Code will not be treated lightly, and disciplinary actions will be taken should such violations occur. Please see me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course.

GRADING GUIDELINES:

Students who get top grades (A, A-, B+) generally

- Display enthusiasm for discovering and mastering ideas related to economic behavior.
- Submit written work that is thoughtful, well-organized, and carefully researched. Their final papers are typed and free of grammatical errors.
- Complete all assigned readings on time and incorporate the information in their exams, written work, and active participation in class.
- Attend all classes (and offer an explanation if they are ever absent). They make up all work they miss if absent.
- Work cooperatively and productively in a group.
- Come by my office with both specific and general concerns.

Students who get middle grades (B, B-, C+, C) generally

- Master some but not all of the ideas in the course.
- Sometimes get distracted while working with others in a group.
- Participate in class discussions and ask occasional questions.
- Complete all of the written assignments and readings.
- Come by my office for help if there is a specific problem.

Students who get low and failing grades (C-, D, F) generally

- Don't turn in assigned work or turn it in late without adequate explanation.
- Submit poor quality work that demonstrates fundamental misunderstandings of the material.
- Miss many classes without any explanation.
- Demonstrate no familiarity with the material when they are called on in class.
- Behave in an unproductive manner when they are part of a group.

COURSE SCHEDULE

Topics, Readings, and Assignments

Readings denoted by (*) will be distributed in class. Others can be found on the Blackboard site for the course under “e-reserves.”

A. Introduction to Economics and the “Economic Way of Thinking”

- Tuesday, Jan. 15 Introduction. Opportunity cost
Readings: Mankiw, chs. 1 and 2 and
“Marginal Values and Economic Decisions”
- Friday, Jan. 18 Comparative Advantage and the gains from trade
Reading: Mankiw, ch. 3
In-class exercise

B. The Workings of a Market Economy

- Tuesday, Jan. 22 Demand and supply
Reading: Mankiw, ch. 4
- Friday, Jan. 25 More on supply and demand
In-class exercises
- Tuesday, Jan. 28 Government intervention in the market
Readings: Mankiw, ch. 6 AND
Milton and Rose Friedman, “The Power of the
Market,” Chapter 1 in Free to Choose, pp. 9-37
Herbert Stein, “The Triumph of the Adaptive Society,”
Chapter 4 in On the Other Hand...

C. Macroeconomics and Long Run Growth

- Friday, Jan. 31 Measuring economic performance: Components of GDP
Readings: Mankiw, ch. 10 AND
“US economy weakens, home prices slide”
“SanDisk’s new chip plant in Shanghai set to open”
“Schwarzenegger orders plan for 10% budget cuts”

Please bring articles about recent GDP growth for the US or
another country of your choice
- Tuesday, Feb. 5 Comparing real GDP across nations and across regions
Readings: “All they are saying is give happiness a chance”
“Measuring happiness and satisfaction”
- Friday, Feb. 8 Measuring inflation: the CPI and GDP price deflator
Reading: Mankiw, ch. 11 and the link to the website CPI,
under “external links”
*Special note: on Friday, Feb. 8, class will be held from
1:00 to 1:50 pm to accommodate the inauguration of
AU’s new president*

Tuesday, Feb. 12	Measuring inflation (continued) Unemployment and its long run “natural rate” <u>Reading:</u> Mankiw, ch. 15 and <u>Please bring a recent article about unemployment in the US or elsewhere</u> PROBLEM SET # 1 DUE: Tuesday, Feb. 12 at the start of class
Friday, Feb. 15	Productivity and long run economic growth <u>Reading:</u> Mankiw, ch. 12
Tuesday, Feb. 19	Growth experiences around the world Why are some countries rich while others are poor? <u>Reading:</u> “What’s your consumption factor?”
Friday, Feb. 22	How savings and investment determine real interest rates <u>Readings:</u> Mankiw, ch. 13 AND “Bush’s request for wars increases to \$196 billion”
Tuesday, Feb. 26	EXAM # 1

D. Financial Markets, Interest Rates, and the Money Supply

Friday, Feb. 29	Financial markets: how bonds are priced <u>Reading:</u> Mankiw, ch. 14
Tuesday, Mar. 4	How banks create money <u>Reading:</u> Mankiw, ch. 16 WRITING ASSIGNMENT # 1 DUE: Tuesday, March 4 (at the start of class)
Friday, Mar. 7	Banks and money (continued) <u>Readings:</u> “Confidence trick” “Six fingers of blame in the mortgage mess” “Bankers’ lesson from mortgage mess: sell, don’t hold” “It’s not 1929 but it’s the biggest mess since”

SPRING BREAK

Tuesday, Mar. 18	Central banking in the United States: The Federal Reserve System <u>Reading:</u> Mankiw, ch. 16
Friday, Mar. 21	The FED’s policy tools “Powerhouse Mishkin may provide clues to Fed plans”

PROBLEM SET # 2 DUE: Friday, Mar. 21 (at the start of class)

E. Short Run Economic Fluctuations

Tuesday, Mar. 25 Explaining recessions: Aggregate demand and Aggregate Supply

Readings: Mankiw, ch. 20 AND
“Four Factors Shaping This Year’s Economy”*

Friday, Mar. 28 AD/AS continued

Reading: Mankiw, ch. 20

Tuesday, Apr. 1 AD/AS continued: Workshop on the Self-correcting Mechanism

Readings: “The Price of Oil has Doubled this Year: So Where’s the Recession?” (*)
“Déjà vu”

PROBLEM SET # 3 DUE: Tuesday, Apr. 1 at the start of class

Friday, Apr. 4 Fiscal and Monetary Policy

Readings: Mankiw, ch. 21 AND
“Core inflation remains steady, presenting a puzzle to the Fed”
“Setting the bar high”
“Plain truth about taxes and cuts”
“Paulson warns against rushing economic stimulus”

Tuesday, Apr. 8 How to fight a recession

Readings: Mankiw, ch. 21 AND
“Sniffles that precede a recession”
“Fed shrugged as subprime crisis spread”
“Canada unexpectedly reduces rates as inflation slows”

Friday, Apr.11 **EXAM # 2**

F. The Global Economy and US Macroeconomic Policy

Tuesday, Apr. 15 Trade balances and capital flows

Reading: Mankiw, ch. 18

Friday, Apr. 18 Trade balances and exchange rates

Readings: Mankiw, ch. 18 AND
“Save the day”
“The loonie takes wing”
“Franc’s fall is keeping Swiss home, to German dismay”
“The dollar is falling and that’s good news”

Tuesday, Apr. 22 The US trade deficit and risks to the US economy

Reading: Mankiw, ch. 18

Friday, Apr. 25

Policy in an open economy

Reading: Mankiw, ch. 19

“Paulson pressured by G-7 calls to aid dollar”

“Weak dollar boosts growth without fueling inflation”

“The dollar and the world economy”

“Dollar policy: don’t ask, don’t tell”

**WRITING ASSIGNMENT # 2 DUE: Friday, Apr. 25
(at the start of class)**

Tuesday, May 6

FINAL EXAM (11:20-1:50)