

PRINCIPLES OF MACROECONOMICS
ECONOMICS 100.006
AMERICAN UNIVERSITY
FALL 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 promote economic recovery and control inflation?
- How did policymakers respond to the credit crunch that began in 2007?
- How do banks create money?
- How has the Bush stimulus package enacted in 2008 affected the economy?
- Will the recent 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 the persistent and growing federal budget deficit?
- How does the United States fit into the global economy?

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.

OTHER IMPORTANT INFORMATION

Office hours: ***Monday and Thursday 10:30 -12 and by appointment.***
Please stop by to see me at least once during the semester. You can also contact me by E-mail.

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

Required readings: There are readings on electronic reserve at the library. These 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 a journal in which you collect and analyze news articles. 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>
Monday, Oct. 6	Exam #1	20%
Monday, Nov. 17	Exam #2	20%
Thursday, Dec. 4	Journal due	20%
Thursday, Dec. 11	Final Exam (2:10-4:40)	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 is due at the start of class on the dates listed below.

THERE WILL BE NO MAKEUP EXAMS. You should make every effort to take the midterm exams as scheduled. If you miss a midterm exam for an approved 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.

INFORMATION ABOUT THE JOURNAL

Each student must locate and analyze seven (7) articles from newspapers or magazines (either in print or on the web). The articles must be directly related to the economic principles that we discuss in this course. You must include the following information for each of the seven entries:

- A copy of the article
- A citation that tells where the article is from and when it was published (all articles must be dated after May 1, 2007)
- A one paragraph summary of the article's main points
- A one to two paragraph analysis of how the article illustrates (or is related to) one or more of the points from the course
- You must also add a graph (supply and demand for example) and your own opinion of the issues presented in the article. Both of these elements are REQUIRED for each article.
- You must type the summary and analysis for each article
- Please be organized and neat

RECOMMENDED SOURCES:

The Washington Post
The New York Times
The Economist
The Wall Street Journal
The Financial Times

Please remember the due date: Thursday, December 4 (in class).

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.

When you read a chapter in the text, try taking notes in the margin or making an outline on a separate sheet of paper. Sometimes this increases retention of the ideas more effectively than highlighting.

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 can be found on the Blackboard site for the course under “e-reserves.”

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

Monday, Aug. 25	Introduction. Opportunity cost <u>Readings:</u> Mankiw, chs 1 and 2 and “Marginal Values and Economic Decisions”
Thursday, Aug. 28	Comparative Advantage and the gains from trade <u>Reading:</u> Mankiw, ch 3
Monday, Sept. 1	LABOR DAY (NO CLASS)

B. The Workings of a Market Economy

Thursday, Sept. 4	Demand and supply <u>Reading:</u> Mankiw, ch 4 AND “An S.U.V. Traffic Jam” “Sunnier Forecast for Corn and Soybean Harvest”
Monday, Sept. 8	More on supply and demand In-class exercises
Thursday, Sept. 11	Government intervention in the market <u>Readings:</u> Mankiw, ch. 6 AND Milton and Rose Friedman, “The Power of the Market,” Chapter 1 in <u>Free to Choose</u> , pp. 9-37 Herbert Stein, “The Triumph of the Adaptive Society” and “Will, War and Bureaucrats,” Chapters 4 and 5 in <u>On the Other Hand...</u>
Monday, Sept. 15	More on government intervention in markets Can markets benefit society? In-class exercises

C. Macroeconomics and Long Run Growth

Thursday, Sept. 18	Measuring economic performance: real and nominal GDP <u>Reading:</u> Mankiw, ch 10 <u>Please bring articles about recent GDP growth for the US or another country of your choice</u>
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**PROBLEM SET # 1 DUE: THURSDAY, SEPT. 18 at
the start of class**

Monday, Sept. 22	Comparing GDP across nations
Thursday, Sept. 25	Measuring inflation: the CPI and GDP price deflator <u>Reading:</u> Mankiw, ch 11 and the link to the website <u>CPI</u> , under “external links” AND “Inflation plague” “Inflation hits annual pace not seen since 1991”
Monday, Sept. 29	Unemployment and its long run “natural rate” <u>Reading:</u> Mankiw, ch 15 and “A Diploma’s Worth” <u>Please bring a recent article about unemployment in the US or elsewhere</u>

PROBLEM SET # 2 DUE: Monday, Sept. 29 at the start of class

Thursday, Oct. 2	Productivity and long run economic growth Readings: Mankiw, ch. 12 AND ‘The limits of leapfrogging”
Monday, Oct. 6	EXAM # 1
Thursday, Oct. 9	Growth experiences around the world Why are some countries rich while others are poor? <u>Readings:</u> ch 12 (continued) AND “Medvedev Boxed In”

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

Monday, Oct. 13	How savings and investment determine real interest rates Financial markets: how bonds and stocks are priced <u>Reading:</u> Mankiw, chs. 13 and 14
Thursday, Oct. 16	More on financial markets: managing risk Reading: Mankiw, ch. 14 (continued)
Monday, Oct. 20	How banks create money <u>Reading:</u> Mankiw, ch 16
Thursday, Oct. 23	Banks and money (continued) <u>Readings:</u> “The Scars of Losing a Home” “Worried Banks Sharply Reduce Loans” “Mechanism for Credit is Still Stuck”

Monday, Oct. 27 Central banking in the United States: The Federal Reserve System

Thursday, Oct. 30 The FED's policy tools
Reading: Mankiw, ch. 16

E. Short Run Economic Fluctuations

Monday, Nov. 3 Explaining recessions: Aggregate demand and Aggregate Supply
Readings: Mankiw, ch 20 AND
"Four Factors Shaping This Year's Economy"
"IMF Urges Stronger U.S., Europe Response"
"For Many, a Boom That Wasn't"

Thursday, Nov. 6 AS/AD continued
Reading: Mankiw, ch 20

Monday, Nov. 10 AD/AS application: Using fiscal policy to fight a recession
Readings: "The Price of Oil has Doubled this Year: So Where's the Recession?"
"U.S. Economy: Confidence Drops"
"Critiques of Spending Plan"
"A Deficit Forecast of \$482 Billion"

PROBLEM SET # 3 DUE: Monday, Nov. 10 at the start of class

Thursday, Nov. 13 AD/AS application: Using monetary policy to fight a recession
Readings: Mankiw, ch 21
"Bernanke May Have to Follow Volcker"
"Bernanke-Geithner Rogue Operation"
"Bernanke Grapples with Greenspan"
"Bank of England Lowers Rate to 5%"

Monday, Nov.17 **EXAM # 2**

F. The Global Economy and US Macroeconomic Policy

Thursday, Nov. 20 Trade balances and exchange rates
Reading: Mankiw, Chapter 18
"Shipping Out"
"Chinese Entity"

Monday, Nov. 24	The US trade deficit and risks to the US economy <u>Reading:</u> Mankiw, ch 18
Thursday, Nov. 27	THANKSGIVING (No class)
Monday, Dec. 1	Policy in an open economy <u>Reading:</u> Mankiw, ch 19 AND "Too good to last"
	PROBLEM SET # 4 DUE: Monday, Dec. 1 at the start of class
Thursday, Dec. 4	Policy in an open economy (continued) <u>JOURNAL DUE IN CLASS: Thursday, Dec. 4</u>
Thursday, Dec. 11	FINAL EXAM (2:10-4:40 pm)