Among many interesting topics people talk about often times, economic issues constitute a major part: Why the US, though still the strongest economy in the world, is somehow challenged by the fast growth in Asia and Latin America? What makes one nation grow faster than another? How do firms decide what to produce and how much to produce? What motivate nations to trade with each other? How to interpret the fluctuation in the security market? ..... The course of Macroeconomics is designed and will be taught in a way such that it will contribute to your knowledge in Economcis by trying to answer these questions. However, you will find eventually that what you really have learned from the course is the ability to analyze what one observes in the real world effectively. Years later, you may not remember the exact questions I ask you in the tests or the answers you gave during the tests, but I am sure the logic behind the correct answers will become part of you, and you will find it very useful in your life.

Text

Required:
Herbert Stein & Murray Foss "American Economy" 2nd Edition

Recommended:
Wall Street Journal

Structure of the course

Lectures: We will meet twice a week on Tuesday and Thursday.

Homework: 1) Homework will be on biweekly basis.
2) Homework should be turned in promptly on due date.
3) Format of homework will be similar to exams: Multiple Choices & Short Essays. (Certain calculations required, but very simple)
4) We will drop the lowest homework grade automatically at the end of the semester.

Project: The group project will be focused on security market analysis. You will be required to work with each other as a group in collecting data on the behavior of certain types of securities, then doing some analysis. I will handout a sample before you start the project, so that you will know the right procedure to follow. The data source is primarily Wall Street Journal.

Quizzes: There will be about 4-5 short quizzes in recitations. They will be announced in advance.

Exams: There will be two midterms, one final. You are required to take all the exams.
How the final grade will be calculated

Homework: 10%
Quizzes: 10%
Project: 10%
Midterm 1: 20%
Midterm 2: 20%
Final: 30%

Curving is only a possibility.

Semester Schedule

Week 1 8/28 - 9/1: Introduction to Economics (Ch 1,2)
Scarcity & Choice (Ch 3)

Week 2 9/4 - 9/8: Scarcity & Choice (Ch 3) cont.
Supply & Demand (Ch 4)

Week 3 9/11 - 9/15: Supply & Demand (Ch 4) cont.

Week 4 9/18 - 9/22: Macroeconomic history (Ch 5)
Unemployment & Inflation (Ch 6)

Week 5 9/25 - 9/29: Income & Spending (Ch 7)

Week 6 10/2 - 10/6: Income & Spending (Ch 7) cont.
Aggregate Demand (Ch 8)

Week 7 10/9 - 10/13: Multiplier Analysis (Ch 9)

Week 8 10/16 - 10/20: Midterm 1
Aggregate Supply (Ch 10)

Week 9 10/23 - 10/27: Fiscal Policy (Ch 11)

Week 10 10/30 - 11/3: Money & Banking System (Ch 12)

Week 11 11/6 - 11/10: Monetary Policy (Ch 13, 14)

Week 12 11/13 - 11/17: Budget Deficits & National Debt (Ch 15)
Midterm 2

Week 13 11/20 - 11/24 (Thanks Giving):
Trade-off between inflation and unemployment(Ch 16)

Week 14 11/27 - 12/1: International Trade (Ch 18)

Week 15 12/4 - 12/8: International Finance (Ch 19, 20)

Week 16 12/11 - 12/15: Final Exam
Course Outline

2020 Lecture 1: (8/29 Tuesday)

Introduction

A. Introduction to Economics
   1. Economics is a study of Scarcity & Choice
   2. Introduce Topics & Chapters (See syllabus)
   3. Tools employed to study Economics

B. Characteristics of US economy

2020 Lecture 2: (8/31/95 Thursday)

Scarcity & Choice

A. Scarcity, Choice and Opportunity Costs
   1. Resources are scarce
   2. Underlying motivation for choice making
   3. Opportunity Costs

B. Production Possibility Frontier & Opportunity cost

C. Economic Efficiency
   1. Productive (technological) efficiency
   2. Allocative efficiency

D. Specialization & Exchange

E. Market Mechanism

2020 Lecture 3: (9/5 Tuesday)

Scarcity & Choice (cont.)

Demand

A. Absolute Advantage vs. Comparative Advantage

B. Specialization & Welfare improvement

C. Demand
   1. Demand Schedule
   2. Demand Curve
   3. Law of demand
   4. Demand and Quantity demanded
   5. Shift of demand curve
   6. Demand curve represents marginal benefit of consumption
Supply Equilibrium

A. Supply
1. Supply Schedule
2. Supply Curve
3. Law of Supply
4. Supply of Quantity supplied
5. Shift of supply curve
6. Supply curve represents marginal cost of production

B. Market Equilibrium

C. Welfare Analysis of Market Equilibrium
1. Consumer Surplus
2. Producer Surplus

Welfare Analysis of Market Equilibrium (cont.)

3. In the market equilibrium, the gain from exchange is completely extracted.
4. Welfare loss in Shortage and Surplus

A. Intervening the market mechanism
1. Price Ceiling
2. Price Floor

Supply & Demand (cont.)

A. Welfare Analysis of Market Intervention

B. Externality and the welfare

C. Summary of Microeconomic Foundation

From Micro to Macro

A. From Microeconomic foundation to Macroeconomic realm

B. American Macroeconomic history

C. Gross Domestic Product (GDP), Inflation & Unemployment
   -- Nominal GDP vs. Real GDP
Unemployment & Inflation

A. Inflation & Purchasing Power

B. Interest Rate
   1. Real interest rate
   2. Nominal interest rate
   3. Fisher Equation

C. Unemployment

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Income & Spending

A. Aggregate Demand, Domestic Product and National Income
   1. Introduction to New terminology:
      -- Aggregate Demand
      -- National Income
      -- Consumer Expenditure
      -- Investment Spending
      -- Government Purchases
      -- Net Exports
   2. Aggregate Demand = C + I + G + (X-M)

B. Circular Flow Model

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Income & Spending (cont.)

A. Consumer Spending & Income
   1. Disposable Income
   2. Consumption function & MPC
   3. Other determinants of consumer spending

B. Saving function and MPS

C. How might the government affect the consumer spending

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Aggregate Demand

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A. Components of Aggregate Demand
   1. Review of consumer spending
   2. Investment
   3. Net Exports
   4. Government Spending

B. Demand-side Equilibrium

C. Expenditure Schedule

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2020 Lecture 12 (10/5/95 Thursday)

Aggregate Demand (cont.)

A. Mechanics of Income Determination
   1. Review the Expenditure Schedule
   2. Income-Expenditure (IE) diagram
   3. Algebraic approach (Appendix B)

B. Aggregate Demand Curve
   - From IE diagram to AD curve

C. Introduce quantity theory with regard to derivation of AD curve from quantity theory

D. Demand-side Equilibrium and Full Employment
   1. Potential GDP vs. Actual GDP
   2. Recessionary Gap vs. Inflationary Gap
   3. Full employment may not be equilibrium

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2020 Lecture 13 (10/10/95 Tuesday)

Multiplier Analysis

A. Macroeconomic Multiplier

B. Multiplier Effects
   1. Consumer Spending
   2. Government Purchases
   3. Net Exports
   4. Fiscal Policy and Stabilization (examples)
   5. Paradox of thrift

C. Multiplier and Aggregate Demand Curve
Aggregate Supply

A. **Aggregate Supply Curve**
   1. Why is it upward sloping?
   2. Shift of the AS curve
   3. Shape of the AS curve

B. **Equilibrium of AD & AS**

C. **Recessionary & Inflationary Gaps**

D. **Inflation & Multiplier**

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**2020 Lecture 17 (10/24/95 Tuesday)**

**Fiscal Policy**

A. **Explain Fiscal Policy**

B. **If time is enough, introduce US tax system**

C. **Income Tax & Consumption Schedule**
   1. Review Keynesian Consumption Function
   2. Graphically
   3. Numerical Example (pp. 253)

D. **Multiplier Revisited**

E. **Multipliers for Tax Policy**

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**2020 Lecture 18 (10/26/95 Thursday)**

**Fiscal Policy (cont.)**

A. **Expansive Fiscal Policy**

B. **Restrictive Fiscal Policy**

C. **Choice between Spending Policy & Tax Policy**

D. **Supply-side Economics**
   1. Idea behind supply-side tax cuts
   2. Clintonomics as Supply-side Economics

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**2020 Lecture 19 (10/31/95 Tuesday)**

**Money & Banking**
A. Money
   1. History of Money & Form of Money
   2. Function of Money
   3. Measurement of Money

B. 3. Money Creation Mechanism
   -- Single Bank
   -- Multiple Banks

C. Elementary Finance (Added)
   -- Financial instruments
   -- Fundamental Finance Concept

2020 Lecture 20 (11/2/95 Thursday)

Money & Banking (cont.)

B. 3. Money Creation Mechanism
   -- Single Bank
   -- Multiple Banks

C. Elementary Finance (Added)
   -- Financial instruments
   -- Fundamental Finance Concept

2020 Lecture 21 (11/7/95 Tuesday)

Monetary Policy

A. Federal Reserve System
   1. Structure
   2. Open Market Operations
      -- Bond Prices & Interest Rates
   3. Controlling Money Supply

B. Money Supply Mechanism

2020 Lecture 22 (11/9/95 Thursday)

Monetary Policy (cont.)

C. Money Market Equilibrium
   1. Money Demand
   2. Money Supply
   3. Interest Rates & Total Expenditure

D. Monetary Policy & Aggregate Demand in Keynesian Model

2020 Lecture 23 (11/14/95 Tuesday)

E. Money & Price Level in the Keynesian Model

F. Debate Over Monetary Policy

G. Techniques of Economic Forecasting
Budget Deficits and National Debt

A. Should the Budget be Balanced?
B. Deficits and Debt
C. Budget Deficits & Inflation
D. Deficits, Interest Rates & Crowding Out
E. The Economics & Politics of the Budget Deficit

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2020 Midterm 2 (11/16/95 Thursday)

2020 Lecture 25 (11/21/95 Tuesday)

Trade off Between Inflation & Unemployment

A. Demand-side Inflation vs. Supply-side Inflation
B. Demand-side Inflation & Phillips Curve
C. Supply-side Inflation & Collapse of Phillips Curve
D. Fiscal Policy, Monetary Policy, and Unemployment
E. Theory of Rational Expectations

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2020 Lecture 26 (11/28/95 Tuesday)

International Trade

A. Law of Comparative Advantage

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2020 Lecture 27 (11/30/95 Thursday)

International Trade (cont.)

B. Trade Protection
   1. Arguments for Trade Protection
   2. Tools of Protection
      -- Tariffs
      -- Quotas
   3. Welfare Analysis of Trade Protection

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2020 Lecture 28 (12/6/95 Tuesday)

International Finance

A. Roles of International Finance
B. Exchange Rates
1. Exchange Rate Determination (Free market)

2. Exchange Rate Regimes & History

C. **Purchasing-Power Parity Theory**

1. Long Run: the PPP Theory

2. Medium Run: Economic Activity & Exchange Rates

3. Short Run: Interest Rates & Exchange Rates

D. **Balance of Payments**