

University of Colorado Boulder
Libby Residential Academic Program
Econ 2020-285R Principles of Macroeconomics
Spring 2014 Syllabus

Lectures: MWF 11:00 – 11:50 PM @ Room 103
Recitations: Fri 12:00 – 12:50 PM @ Room 103

Instructor: Vijaya R. Sharma, PhD

Office Hours:

- Mon 12:00 – 1:00 PM @ Libby 140A
- Tue 12:00 – 1:00 P.M. @ Sewall 42D
- Wed 1:00 P.M. – 2:00 P.M. @ Farrand 201

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I prefer emails and/or office visits.

Course Description

The course introduces principles of economics related to performance of an economy. It discusses methods of measurement and determinants of performance, especially the national output, income, inflation, unemployment, and international trade and balance of payments. It presents a model framework for analyzing fiscal and monetary policies and compares and contrasts economic theories and views on methods of stabilizing and/or accelerating growth of economic activities. Special emphasis is given to the discussion of current U.S. macroeconomic issues.

This course uses model-based analytical learning method. Students learn concepts, theories and models which help interpret data, facts, and experiences in order to answer questions, solve problems and resolve issues. The course reinforces this analytical method by asking students to apply models in a number of assignments and clicker questions. Models are built on certain assumptions for making them mathematically tractable; students should understand these assumptions and question their real world validity.

Textbook, Readings and Clickers

Required textbook is the packet of course notes prepared by the instructor, which is available from the campus bookstore. Bring the textbook and also a calculator to both lectures and recitations. Bring your clicker too to the class. If you do not already have a clicker, you may buy one for CU Bookstore. Any assigned reading shall be made available at appropriate times.

Classroom Etiquettes

Private conversations, text messaging, phone calls, internet surfing and use of laptops, iPads, notebooks and cell phones are strictly prohibited during the class. Frequent walking in and out of classroom is not an accepted classroom behavior.

Attendance Policy

Regular attendance is strongly encouraged. An absence may affect your assignment and clicker scores. Read carefully the relevant sections of the syllabus below.

Grading Policy

Course grade is determined from performances in tests, assignments and clicker questions; the weight distribution is:

- Tests: 85%
- Assignments: 12.5%
- Clickers: 2.5%

The standard grading scale is used for letter grade. Ninety three and above is A, 90-92 A-, 87-89 B+, 83-86 B, 80-82 B-, 77-79 C+, 73-76 C, 70-72 C-, 67-69 D+, 63-66 D, 60-62 D- and below 60 is F.

Tests

Four tests of equal weight are given. The worst performance test is dropped. No makeup test is given. If a student misses a test, that test is considered the worst test and dropped. The average percentage score of the best three tests counts for 85% of the course grade. Test dates are given below, which are firm.

- Exam 1: Feb 14 Friday
- Exam 2: Mar 12 Wednesday
- Exam 3: Apr 16 Wednesday
- Exam 4: May 6, Tuesday @ 7:30 PM

Assignments

Problems are assigned, collected on their due dates and graded. Of the 11 to 13 problem sets that are assigned, the two worst ones shall be dropped; the remaining sets together count for 12.5% of the course grade. No late submission is accepted and no makeup is offered. If you know you are going to be absent on the due date, submit your answers through a classmate.

Clickers

Clicker questions are given during lectures and are graded for both participation and accuracy. If you miss a lecture, you miss the clicker questions given that day and there is no makeup. Five percent curve is added to the raw clicker score. Such curved clicker score cannot exceed 100% and counts for 2.5% of the course grade.

Course Outline and Tentative Schedule

First Part:

INTRODUCTION (Ch I): Jan 13

INFLATION, NOMINAL AND REAL VALUES (Ch II): Jan 15, 17, (MLK Day), Jan 22

Inflation definition, inflation v. relative price change, demand-pull v. cost-push inflation, CPI definition and construction, calculation of inflation from CPI, core inflation, hyperinflation, problems with CPI, Real value of nominal money balance, the conversion formula, Interest rate – nominal v. real, conversion formula, Effects of inflation

GROSS DOMESTIC PRODUCT (Ch III): Jan 24, 27, 29, 31, Feb 3

GDP definition: final goods, domestic production only, and production in specified period; current price v. constant price GDP; unsold products recorded as inventory, limitation of nominal GDP and real GDP, GNP v. GDP; Expenditures approach of accounting GDP; Resource income approach of accounting GDP, gross domestic income, investment, capital stock and depreciation; Value-added approach; Per-capita real GDP and comparison of welfare across countries; NDP/NNP, national income, personal income, and disposable income; GDP deflator concept, market basket, deflator formula, inflation formula, nominal to real GDP conversion formula, Problems with GDP as a measure of welfare

LABOR FORCE AND UNEMPLOYMENT (Ch IV): Feb 5, 7, 10

Non-institutional civilian population, persons in labor force, persons not in labor force including persons marginally attached to labor force and discouraged workers; labor force participation rate and gender composition; unemployed persons and persons actively seeking employment, unemployment and employment rates, understatement of unemployment; Bureau of Labor Statistics, who is employed and who is unemployed, recent unemployment data; Initial jobless claims and limitations of this measures; types of unemployment – cyclical, structural and frictional; natural rate of unemployment and full employment

EXAM 1: FEB 14 FRIDAY

Second Part

BUSINESS CYCLE AND AD-AS MODEL (Ch V): Feb 12, 17, 19

Macro-policy goals, Business cycle definition, phases, expansion and contraction, recession and depression, Stagflation, NBER, long-run growth of GDP, Goods and Services Market, Aggregate demand, Real balance effect, interest rate effect, and international substitution effect to explain AD, Unanticipated changes in price level, Factors that shift AD, Flexible prices but sticky wages, Adaptive expectations hypothesis, Short run aggregate supply, Long-run AS, Factors that shift AS, What causes business cycle, Full employment

CLASSICAL ECONOMICS (Ch VI): Feb 21, 24, 26

Two opposite theories on stabilization of economic activities, Classical economics and its explanations of market-led self-recovery from recession and inflation; Short run stickiness but long run flexibility of prices, Rational expectations hypothesis, Adaptive v. Rational expectations debate; Permanent income hypothesis on fluctuations of household consumption expenditure; Phillips Curve – Short Run and Long Run

KEYNESIAN ECONOMICS (Ch VII): Feb 28, Mar 3, 5, 7

Keynesian school of thought, The Great Depression; Sticky price assumption in Keynesian Economics; Keynesian consumption function, autonomous and discretionary consumption, marginal propensity to consume and to save, average propensity to consume; Planned aggregate expenditures and relationship to GDP; Aggregate supply in Keynesian economics; Keynesian cross model and need of fiscal stimulus for fighting recession; Representation of Keynesian theory in AD-AS framework; Concept of income/expenditure multiplier, size and form of fiscal stimulus

EXAM 2: MAR 12 WEDNESDAY

Third Part

MAINSTREAM FISCAL POLICY (Ch VIII): Mar 10, 14, 17

Realistic shape of SRAS, Counter-cyclical fiscal policy, impact on budget deficit, size of fiscal stimulus needed – increase in government spending, decrease in taxes; Dissenting views on need of fiscal policy: Crowding out, New Classical economics, Mistiming argument, Automatic stabilizers

MONEY, BANKING, AND MONETARY POLICY (Ch IX): Mar 19, 21, (Spring Break), Mar 31, Apr 2, 4

Functions and forms of money; Demand for money – determinants and sources of demand, graphical representation, relation with nominal interest rate, change in interest rate with change in supply, liquidity trap; Measures of money supply: M1, M2, M3 and MZM; Federal Reserve System, functions, district banks, Board of Governors, independence of Fed, open market committee and operations, federal discount rate, lender of last resort, federal funds rate; required reserve, fractional reserve banking and bank balance sheet; creation of money by commercial banks – required reserve, excess reserve, money multiplier, and change in money multiplier formula; Monetary policy tools – RRR, discount rate, and OMO or fed funds rate; Dissenting views on monetary policy – Quantity theory, Keynesian view, Monetarism and Modern View

BUDGET DEFICIT AND NATIONAL DEBT (Ch X): Apr 7, 9, 11

Deficit v. Debt, Size of government, Economic freedom and prosperity, Size U.S. federal budget deficit, Underestimation of deficit, Structural v. cyclical deficit; Size of national debt and trend, Burden of budget deficit and alternative methods of reducing deficit; Burden of national debt and economic collapse

EXAM 3: APR 16 WEDNESDAY

Fourth Part

COMPARATIVE ADVANTAGE & GAINS FROM TRADE (Ch XI): Apr 14, 18, 21, 23

Ricardian model of trade, absolute advantage, law of comparative advantage, consumption possibilities with and without trade; Domestic exchange cost and international exchange cost; What determines comparative advantage?; Limitations of Ricardian model – bowed out PPC, non-zero transportation cost, redistributive effects, and economies of scale; Trade barriers and effects – import tariff and import quota

INTERNATIONAL FINANCE (Ch XII): Apr 25, 28, 30, May 2

Two methods of determining exchange rates, Flexible exchange rate system and the functioning of market, factors that shift demand and supply, depreciation and appreciation of currency, Fiscal policy and exchange rate, Monetary policy and exchange rate; Fixed exchange rate system, the commitment of central bank to maintain the rate and alternative methods of interventions needed – monetary policy, currency devaluation/revaluation, trade policy, potential speculative run on currency market; Managed exchange rate system; Comparison of per-capita GDP across countries – nontraded good effect and fixed exchange rate effect, Purchasing power parity method of comparison; Balance of payments accounts – current account, capital/financial account, and official reserve

account, BOP and flexible v. fixed rate system, Fiscal policy and BOP, Monetary policy and BOP

EXAM 4: MAY 6, TUESDAY @ 7:30 PM

Accommodations for Students with Documented Disability

If you qualify for accommodations because of a disability, please submit to me a letter from Disability Services in a timely manner (for exam accommodations provide your letter at least one week prior to the exam) so that your needs can be addressed. Disability Services determines accommodations based on documented disabilities. Contact Disability Services at 303-492-8671 or by email at dsinfo@colorado.edu.

If you have a temporary medical condition or injury, see Temporary Injuries under Quick Links at Disability Services website <http://disabilityservices.colorado.edu/>

Absences due to Religious Observances

Campus policy regarding religious observances requires that faculty make every effort to deal reasonably and fairly with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. If you have any such conflict, please inform the instructor at least two weeks in advance to make a reasonable arrangement or adjustment. See full details at http://www.colorado.edu/policies/fac_relig.html.

Classroom Behavior Policy

Students and faculty each have responsibility for maintaining an appropriate learning environment. Those who fail to adhere to such behavioral standards may be subject to discipline. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, color, culture, religion, creed, politics, veteran's status, sexual orientation, gender, gender identity and gender expression, age, disability, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records. See policies at <http://www.colorado.edu/policies/classbehavior.html> and at http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code

Honor Code

All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include: cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council (honor@colorado.edu; 303-735-2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university probation, suspension, or expulsion). Other information on the Honor Code can be found at <http://www.colorado.edu/policies/honor.html> and at <http://www.colorado.edu/academics/honorcode/>

Discrimination and Sexual Harassment

The University of Colorado Boulder (CU-Boulder) is committed to maintaining a positive learning, working, and living environment. The University of Colorado does not discriminate on the basis of race, color, national origin, sex, age, disability, creed, religion, sexual orientation, or veteran status in admission and access to, and treatment and employment in, its educational programs and activities. (Regent Law, Article 10, amended 11/8/2001). CU-Boulder will not tolerate acts of discrimination or harassment based upon Protected Classes or related retaliation against or by any employee or student. For purposes of this CU-Boulder policy, "Protected Classes" refers to race, color, national origin, sex, pregnancy, age, disability, creed, religion, sexual orientation, gender identity, gender expression, or veteran status. Individuals who believe they have been discriminated against should contact the Office of Discrimination and Harassment (ODH) at 303-492-2127 or the Office of Student Conduct (OSC) at 303-492-5550. Information about the ODH, the above referenced policies, and the campus resources available to assist individuals regarding discrimination or harassment can be obtained at <http://hr.colorado.edu/dh/>