

SYLLABUS

Fall 2018

Principles of Macroeconomics

ECON 111

In this course we study how an economy functions. We see why economic interaction through trade and the resulting specialization can make everyone better off. We examine how markets determine which goods and services are produced. We learn about tools, *such as the GDP*, that help us to describe and analyze an economy. We discuss the institutions that are used to guide our economy, *such as the Federal Reserve System*; and debate the pros and cons of different policies they can engage in. I hope that this course will not only improve our understanding of our economy but will also help us to develop skills that are useful to analyze complex issues in general.

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Office Hours: Monday 1:30 – 3:00, Tuesday 9:00 – 10:30, Thursday 9:30 – 11:00,
by chance, or by appointment.

Text: Mankiw, *Brief Principles of Macroeconomics*, South-Western, Cengage Learning,
Any Edition or format (*older editions are very similar to the latest ones*)

The lectures are designed to go hand in hand with the book. The book and the lectures are complements (one works better with the other), *not* substitutes (one replaces the other). The best way to learn is to read the book *and* participate in class.

Slides, assignments, and other material will be posted on canvas.

Attendance:

You are expected to attend every class. You are responsible for all material covered in class. If you have to miss class, it is your responsibility to get the notes from another student. You are welcome to come to my office if you don't understand something in the notes after you have reviewed them.

*If you have (or suspect to have) a **learning difference**, talk to me as soon as possible.*

The Washington College Honor Code

We at Washington College strive to maintain an environment in which learning and growth flourish through individuals' endeavors and honest intellectual exchanges both in and out of the classroom. To maintain such an environment, each member of the community pledges to respect the ideas, well-being, and property of others. Thus, each member of the Washington College Community abides by an Honor Code. Any form of cheating or otherwise impeding the academic progress of others is a violation of the Honor Code.

Grades:

Grades are determined by the 3 best of 4 assignments, the best 3 of 4 exams, and your participation in the classroom.

The maximum score for each assignment is 25 points. Assignments have to be handed in at the beginning of class on the due date. I encourage you to discuss the assignments in small groups, but everybody has to write up her/his own answers individually.

The maximum score in each exam is 100 points. The 4th exam is the final and will be cumulative. You do not have to take the final if you are satisfied with your performance in the three previous exams.

You can earn up to 25 points by participating in class.

Participation	+	Best 3 out of 4 assignments each 25 points	+	Best 3 out of 4 exams each 100 Points	=	Total
25 Points		75 Points		300 Points		400 Points

Grade	Total Points (max. 400)	Grade	Total Points (max. 400)
A+	390 or more	C+	305 or more, but less than 320
A	380 or more, but less than 390	C	290 or more, but less than 305
A-	365 or more, but less than 380	C-	275 or more, but less than 290
B+	350 or more, but less than 365	D+	260 or more, but less than 275
B	335 or more, but less than 350	D	245 or more, but less than 260
B-	320 or more, but less than 335	D-	225 or more, but less than 245
		F	less than 225

**If you fail to hand in an assignment or miss an exam (for any reason)
you lose the opportunity to drop your lowest score.
Exceptions to this rule will be made only in extreme circumstances.**

Dates *(If changes are necessary they'll be announced in class):*

Tuesday, September 11	Assignment #1 due
Tuesday, September 25	Assignment #2 due
Tuesday, October 23	Assignment #3 due
Tuesday, November 20	Assignment #4 due

Thursday, October 4	Exam #1
Tuesday, November 6	Exam #2
Thursday, December 6	Exam #3
December 10 – 14	Exam #4 (Final)

Course Outline

I. Introduction

Chapters 1- 3

We learn what economics is and talk about the methods used by economists. Economists study a wide variety of social issues. They develop theories and use models to study complex issues. They distinguish between positive and normative analysis.

Economists understand that any decision maker faces tradeoffs, if we choose one option we may have to forgo an alternative. Another key insight is that trade can make both trading partners better off. We formalize these insights with the help of concepts such as: the production possibilities frontier, opportunity cost, and comparative and absolute advantage.

II. How Markets Work

Chapter 4

In this section we learn about markets. The interaction between the various participants in our economy – workers, firms, consumers ... – is coordinated in markets through the adjustment of prices.

We see that the functioning of markets depends on the level of competition between market participants and their access to information. We discuss the role of tastes and production costs for demand and supply. We learn to analyze how changes in the economic environment affect supply, demand, and prices.

In a market economy each individual decision maker (e.g. a firm or a consumer) faces a relatively simple problem: to decide whether to buy or sell a good or service at a given price. The adjustment of prices to connect supply and demand leads to the resulting economy-wide coordination.

In a microeconomics class you can learn more about how markets work – and sometimes fail to work.

III. Macroeconomic Data

Chapters 5, 6

After obtaining a basic understanding of economic interaction and markets, we look at the economy in its entirety – Macroeconomics. First, we develop tools to measure economic activity. The Gross Domestic Product (GDP) measures the output of a nation – it makes it possible to add up very different results of economic activity, such as apples and haircuts. We talk about the role of prices, distinguish between real GDP and nominal GDP, and learn about the Consumer Price Index (CPI).

IV. The Economy in the long run *Chapters 7 - 10*

Now we are ready to ask the big questions like: What causes unemployment? Can policy changes reduce unemployment? Why are some countries very rich and other countries very poor? What can a poor country do to catch up to wealthy countries, or what can a rich country do to maintain its wealth?

To understand why some countries are richer than others we ask: What determines the ability to produce a lot of things? We define the concepts Labor, Capital, Human Capital, and Technology to think about the answer to this question. We use our insights to consider options to promote economic growth through investment, education, research, better institutions, and managing population growth.

Financial markets coordinate the decisions to invest in various projects. We study the basic features of financial markets. Saving, investment, interest rates, risk aversion, and discounting are some of the concepts we utilize.

One of the most important markets is the market for labor, where workers sell their labor to firms. Sometimes workers who are willing to work cannot sell their services – these workers are unemployed. We think about the reasons for and consequences of unemployment.

V. Money and Prices *Chapters 11, 12*

All modern societies use money – in fact money evolved thousands of years ago and even relatively primitive societies have used money. Money helps to facilitate trade and makes complex societies with specialized professions possible.

We talk about our monetary system. We learn how the Federal Reserve Bank controls money supply. We also think about the relationship between money supply and inflation.

VI. Open Economies

Chapters 13, 14

Time permitting we might talk briefly about international trade and exchange rates.

VII. Short-Run Economic Fluctuations *Chapters 15 - 17*

The Macroeconomic topic that has dominated the public discussion in recent years is the business cycle – the fact that economic activity fluctuates between booms and recessions. We learn about past business cycle fluctuation and discuss their empirical patterns. Then, we develop a theory of business cycle fluctuations. We use this theory to analyze past business cycle fluctuations and to evaluate policies that can be used to affect current and future business cycles. We talk about the ideas of Keynes and about the tradeoff between inflation and unemployment.

VIII. Other topics and current debates over macroeconomic policy

Events unfolding throughout the semester might give us a good opportunity to apply our tools, and follow current debates over economic policy.