McGILL UNIVERSITY
Department of Economics

ECON 295-002
INTRODUCTION TO MACROECONOMIC POLICY

FALL 2018

Instructor: Moshe Lander
E-mail: moshe.lander@mcgill.ca
Phone: 514-398-2102
Office Location: LEA 526
Office Hours: TR 12:30 – 13:30
Lecture Hours: T 17:35 – 20:25
Lecture Location: STBIO 1/3

Teaching Assistant: Mr Jian Tang (jian.tang2@mail.mcgill.ca)
Teaching Assistant: Mr Kili Djolaud (kili.djolaud@mail.mcgill.ca)
Teaching Assistant: Miss Xiao Di Zhu (xiaodi.zhu@mail.mcgill.ca)

Course Overview:
This applied macroeconomics course focuses on current and recurrent macroeconomic issues important in understanding the public policy environment in which firms make their decisions. Topics include national accounts; national income determination; economic growth and fluctuations; money, monetary policy and financial markets; international trade and finance.

Course Pre- and Co-requisites:
MGCR 293

Course Restrictions:
- For BComm students only
- Not open to students who have taken or are taking ECON 209, ECON 330 or ECON 352

Number of Credits:
3 credits

Required Textbook and Materials:
  - The textbook can be purchased at Librairie Paragraphe Bookstore (2220 McGill College Avenue).
  - Use the instructor code lander37986 to purchase MyStatLab at: www.pearsonmylabandmastering.com/northamerica/mystatlab/students/get-registered/index.html
  - A copy of this textbook is on reserve at the Humanities and Social Sciences Library.

---

1 In the event of extraordinary circumstances beyond the University’s and/or instructor’s control, the content and/or evaluation scheme in this course is subject to change. Announcements will be made in class and/or myCourses.
Correspondence:
All correspondence in this class will be directed through McGill email addresses only. Any email coming from any other address will be directed to spam immediately and will neither be read nor answered. If you have not activated your account already, please follow the instructions at www.mcgill.ca/it/get-started-it/students.

Course Assessment:

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>WEIGHT</th>
<th>CONTENT</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midterm 1</td>
<td>25 percent</td>
<td>Chapters 19 – 23</td>
<td>October 10</td>
</tr>
<tr>
<td>Midterm 2</td>
<td>25 percent</td>
<td>Chapters 24 – 28</td>
<td>October 31</td>
</tr>
<tr>
<td>Final</td>
<td>50 percent</td>
<td>Chapters 19 – 34</td>
<td>TBD</td>
</tr>
<tr>
<td>Labs</td>
<td>00 percent</td>
<td>Chapters 19 – 34</td>
<td>Weekly</td>
</tr>
</tbody>
</table>

Exams:
- There are two midterm exams written outside of class time (Wednesday, October 10 and Wednesday, October 31) and one final exam written during the final exam period. While the instructor will announce the date, time and location of the final exam, the student is ultimately responsible for ensuring the accuracy of the information.
- The midterm and final exams are identical across all sections. The final exam is cumulative (ie, it covers everything from the beginning of the course), while the midterm exams only cover material from the first and second thirds of the course, respectively (see Lecture Schedule & Assigned Readings).
- All exams consist of multiple choice questions and problem questions that may involve algebra, equations, graphing and interpretation. Students may use non-programmable calculators. Any other study aides are prohibited.
- **There are no supplemental assignments or make-up exams in this class.**

Labs:
- There is one ungraded MyStatLab lab for each chapter covered. These labs are very similar to the more traditional, hardcopy assignments that students would submit to instructors. The purposes of the labs are (1) to reinforce material covered in class; (2) to teach material for which there is insufficient time in class; (3) to keep students on track with course learning objectives; and, (4) to provide students with immediate evaluation and feedback.
- Students can access the labs at http://portal.mypearson.com/mypearson-login.jsp after they have purchased the access code and registered in the appropriate section. Labs have neither a deadline nor a time limit nor a limit to the number of attempts.
- Address all technical questions directly to MyStatLab (http://247pearsoned.custhelp.com/app/ask) and not the instructor.
- Each lab consists of some multiple-choice, graphical, numerical and conceptual questions. Evaluation and feedback is provided immediately after submitting answers.
- Some MyStatLab questions are based on computer algorithms. This means that every time a lab is attempted, some parameters (eg, numbers, wording) of the questions may differ.
Grade Criterion:

<table>
<thead>
<tr>
<th>Letter</th>
<th>Points</th>
<th>Percent</th>
<th>Letter</th>
<th>Points</th>
<th>Percent</th>
<th>Letter</th>
<th>Points</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>4.0</td>
<td>85 – 100</td>
<td>B</td>
<td>3.0</td>
<td>70 – 74</td>
<td>C</td>
<td>2.0</td>
<td>55 – 59</td>
</tr>
<tr>
<td>A-</td>
<td>3.7</td>
<td>80 – 84</td>
<td>B-</td>
<td>2.7</td>
<td>65 – 69</td>
<td>D</td>
<td>1.0</td>
<td>50 – 54</td>
</tr>
<tr>
<td>B+</td>
<td>3.3</td>
<td>75 – 79</td>
<td>C+</td>
<td>2.3</td>
<td>60 – 64</td>
<td>F</td>
<td>0.0</td>
<td>00 – 49</td>
</tr>
</tbody>
</table>

- The official grade in this course is the letter grade. Where appropriate, a class average appears on transcripts expressed as the letter grade most representative of the class performance.
- Students must obtain a grade of C or better in cases where this course fulfills program requirements.

Instructional Method:
I have been told that my lecture style is fast-paced and intense but engaging and humorous. Although students often find that this style makes the concepts easier to understand, they are often disappointed when they fail to perform to the level to which they are accustomed on my exams. My exams tend to reward those that are sufficiently knowledgeable of the underlying concepts and have developed an intuitive approach to the material. **Memorisation is almost never rewarded.**

To give you the best chance for success in my course, I strongly encourage you to come prepared and on time, avoid absences, participate regularly with a positive attitude, read the relevant materials before class and do the assigned homework before the subsequent class, dress appropriately and identify problems and seek help as soon as they occur.

Lecture Schedule and Assigned Readings:

<table>
<thead>
<tr>
<th>DATE</th>
<th>EVENT</th>
<th>COVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 4</td>
<td>Introduction</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>What Macroeconomics Is All About</td>
<td>Chapter 19</td>
</tr>
<tr>
<td>September 11</td>
<td>The Measurement of National Income</td>
<td>Chapter 20</td>
</tr>
<tr>
<td>September 18</td>
<td>The Simplest Short-Run Macro Model</td>
<td>Chapter 21</td>
</tr>
<tr>
<td></td>
<td>Adding Government and Trade to the Simple Macro Model</td>
<td>Chapter 22</td>
</tr>
<tr>
<td>September 25</td>
<td>Adding Government and Trade to the Simple Macro Model</td>
<td>Chapter 22</td>
</tr>
<tr>
<td></td>
<td>Output and Prices in the Short Run</td>
<td>Chapter 23</td>
</tr>
<tr>
<td>October 2</td>
<td>From Short Run to Long Run: The Adjustment of Factor Prices</td>
<td>Chapter 24</td>
</tr>
<tr>
<td>October 9</td>
<td>Long-Run Economic Growth</td>
<td>Chapter 25</td>
</tr>
<tr>
<td></td>
<td>Money and Banking</td>
<td>Chapter 26</td>
</tr>
<tr>
<td>October 10</td>
<td>MIDTERM 1 (17:35 – 19:55, ENGMC 204)</td>
<td>Chapters 19 – 23</td>
</tr>
<tr>
<td>October 16</td>
<td>Money and Banking</td>
<td>Chapter 26</td>
</tr>
<tr>
<td></td>
<td>Money, Interest Rates, and Economic Activity</td>
<td>Chapter 27</td>
</tr>
<tr>
<td>October 23</td>
<td>Monetary Policy in Canada</td>
<td>Chapter 28</td>
</tr>
<tr>
<td></td>
<td>Inflation and Disinflation</td>
<td>Chapter 29</td>
</tr>
<tr>
<td>October 30</td>
<td>Inflation and Disinflation</td>
<td>Chapter 29</td>
</tr>
<tr>
<td></td>
<td>Unemployment Fluctuations and the NAIRU</td>
<td>Chapter 30</td>
</tr>
<tr>
<td>October 31</td>
<td>MIDTERM 2 (17:35 – 19:55, STBIO S1/4)</td>
<td>Chapters 24 – 28</td>
</tr>
<tr>
<td>November 6</td>
<td>Government Debt and Deficits</td>
<td>Chapter 31</td>
</tr>
<tr>
<td>November 13</td>
<td>The Gains from International Trade</td>
<td>Chapter 32</td>
</tr>
<tr>
<td>November 20</td>
<td>Trade Policy</td>
<td>Chapter 33</td>
</tr>
<tr>
<td>November 27*</td>
<td>Exchange Rates and the Balance of Payments (18:35 – 21:25)</td>
<td>Chapter 34</td>
</tr>
</tbody>
</table>
Course Objectives / Learning Outcomes:

Chapter 19
- Define the key macroeconomic variables: national income, unemployment, productivity, inflation, interest rates, exchange rates and net exports.
- Understand that most macroeconomic issues are about either long-run growth or short-run fluctuations and that government policy is relevant for both.

Chapter 20
- See how the concept of value added solves the problem of “double counting” when measuring national income.
- Explain the income approach and the expenditure approach to measuring national income.
- Explain the difference between real and nominal GDP and understand the GDP deflator.
- Discuss the many important omissions from official measures of GDP.
- Understand why real per capita GDP is a good measure of average material living standards but an incomplete measure of overall wellbeing.

Chapter 21
- Explain the difference between desired and actual expenditure.
- Identify the determinants of desired consumption and desired investment.
- Understand the meaning of equilibrium national income.
- Explain how a change in desired expenditure affects equilibrium income through the simple multiplier.

Chapter 22
- Understand how government purchases and tax revenues relate to national income.
- Understand how exports and imports relate to national income.
- Distinguish between the marginal propensity to consume and the marginal propensity to spend.
- Explain why the introduction of government and foreign trade in the macro model reduces the value of the simple multiplier.
- Explain how government can use fiscal policy to influence the level of national income.
- Understand why output is demand determined in our simple macro model.

Chapter 23
- Explain why an exogenous change in the price level shifts the AE curve and changes the equilibrium level of real GDP.
- Derive the AD curve and understand what causes it to shift.
- Explain the meaning of the AS curve and understand why it shifts when technology or factor prices change.
- Explain how AD and AS shocks affect equilibrium real GDP and the price level.

Chapter 24
- Describe the three different macroeconomic states and the underlying assumptions for each one.
- Explain why output gaps cause wages and other factor prices to change.
- Describe how changes in factor prices affect firms’ costs and shift the AS curve.
- Explain why real GDP gradually returns to potential output following an AD and AS shock.
- Understand why lags and uncertainty place limitations on the use of fiscal stabilisation policy.
Chapter 25
- Discuss the costs and benefits of economic growth.
- List four important determinants of growth in potential GDP.
- Explain the main elements of Neoclassical growth theory in which technological change is exogenous.
- Discuss alternative growth theories based on endogenous technical change.
- Explain why resource exhaustion and environmental degradation may create serious challenges for public policy directed at sustaining economic growth.

Chapter 26
- Describe the various functions of money and how money has evolved over time.
- See that modern banking systems include both privately owned commercial banks and government-owned central banks.
- Explain how commercial banks create money through the process of taking deposits and making loans.
- Describe the various measures of the money supply.

Chapter 27
- Explain why the price of a bond is inversely related to the market interest rate.
- Describe how the demand for money depends on the interest rate, the price level and real GDP.
- Explain how monetary equilibrium determines the interest rate in the short run.
- Describe the transmission mechanism of monetary policy.
- Understand the difference between the short-run and long-run effects of monetary policy.
- Describe under what conditions monetary policy is most effective in the short run.

Chapter 28
- Explain why the Bank of Canada chooses to directly target interest rates rather than the money supply.
- Understand why many central banks have adopted formal inflation targets.
- Explain how the Bank of Canada’s policy of inflation targeting helps to stabilise the economy.
- Describe why monetary policy affects real GDP and the price level only after long time lags.
- Discuss the main economic challenges that the Bank of Canada has faced over the past three decades.

Chapter 29
- Understand why wages tend to change in response to both output gaps and inflation expectations.
- Describe how a constant rate of inflation can be incorporated into the basic macroeconomic model.
- Explain how AD and AS shocks affect inflation and real GDP.
- Explain what happens when the Bank of Canada validates demand and supply shocks.
- Understand the three phases of a disinflation.
- Explain how the cost of disinflation can be measured by the sacrifice ratio.
Chapter 30
- Compare employment and unemployment changes over the short run and long run.
- Describe the difference between market-clearing and non-market-clearing theories of the labour market.
- Discuss the causes of frictional and structural unemployment.
- Explain the various forces that cause the NAIRU to change.
- Discuss policies designed to reduce unemployment.

Chapter 31
- Explain how the government’s annual budget deficit (or surplus) is related to its stock of debt.
- Describe the structural deficit and how it can be used to measure the stance of fiscal policy.
- Understand how budget deficits may crowd out investment and net exports.
- Describe why a high stock of government debt may hamper the conduct of monetary and fiscal policies.
- Explain why legislation requiring balanced budgets may be undesirable.

Chapter 32
- Explain why the gains from trade depend on the pattern of comparative advantage.
- Understand how factor endowments and climate can influence a country’s comparative advantage.
- Describe the law of one price.
- Explain why countries export some goods and import others.

Chapter 33
- Describe the various situations in which a country may rationally choose to protect some industries.
- Discuss the most common invalid arguments in favour of protection.
- Explain the effects of tariffs and quotas on imported goods.
- Understand why trade-remedy laws are sometimes just thinly disguised protection.
- Distinguish between trade creation and trade diversion.
- Discuss the main features of the North American Free Trade Agreement.

Chapter 34
- List the components of Canada’s balance of payments and explain why the balance of payments must always balance.
- Describe the demand for and supply of foreign exchange.
- Discuss various factors that cause fluctuations in exchange rates.
- Discuss why a current account deficit is not necessarily undesirable.
- Understand the theory of purchasing power parity (PPP) and its limitations.
- Explain how flexible exchange rates can dampen the effects of external shocks.
Language of Submission:
In accordance with McGill University’s Charter of Students’ Rights, students in this course have the right to submit in English or in French any written work that is to be graded.

Academic Integrity:
McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures.

Text-Matching Software:
As per McGill University’s Policy on Text-Matching Software, this course uses such software. Item 2 of the Policy states, in part, that, “Students shall also be informed in writing before the end of the drop/add period that they are free, without penalty of grade, to choose an alternative way of attesting to the authenticity of their work. Instructors shall provide students with at least two possible alternatives that are not unduly onerous and that are appropriate for the type of written work.”

If you prefer an alternative way of attesting to your work’s authenticity be used, you may choose to…
- Submit copies of multiple drafts;
- Submit photocopies of sources;
- Take an oral examination directed at issues of originality; or,
- Respond in writing to a quiz or questions directed at issues of originality.

Student Assessment Policy:
The University Student Assessment Policy exists to ensure fair and equitable academic assessment for all students and to protect students from excessive workloads. Students are encouraged to review this Policy, which addresses multiple aspects and methods of student assessment (eg, the timing of evaluation due dates and weighting of final examinations).

Copyrighted Materials:
Instructor-generated course materials (eg, handouts, notes, summaries, exam questions, etc.) are protected by law and may not be copied or distributed in any form or in any medium without explicit permission of the instructor. Note that infringements of copyright can be subject to follow up by the University under the Code of Student Conduct and Disciplinary Procedures.

Inclusive Learning:
While I endeavor to provide an inclusive learning environment, if you experience barriers to learning in this course, do not hesitate to discuss them with me and/or with the Office for Students with Disabilities.

End-of-Course Evaluations:
End-of-Course Evaluations are one of the ways that McGill works towards maintaining and improving the quality of courses and the student’s learning experience. You will be notified by e-mail when the evaluations are available.

Students’ Rights:
Additional policies governing academic issues that affect students can be found in the Handbook on Student Rights and Responsibilities.