Macroeconomics is concerned with the operation of the economy as a whole, with attention paid to such things as unemployment, inflation, and interest rates, determination of the level of national income, savings and investment, and the exchange rate and the current account of the balance of payments. The course develops a consistent model of the economy to explore the interactions of key macroeconomic markets and variables and to examine the impacts of different kinds of shocks to the economy and the role of government budgetary and monetary policy in influencing the level of economic activity.

<table>
<thead>
<tr>
<th>Mode of Delivery</th>
<th>On campus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-requisite</td>
<td>ECON 7073 must either have been successfully completed prior to undertaking this unit or be undertaken concurrently with this unit.</td>
</tr>
<tr>
<td>Incompatible Courses</td>
<td>ECON 1102, ECON 8069</td>
</tr>
<tr>
<td>Course Convener:</td>
<td>Dr Damien Eldridge</td>
</tr>
<tr>
<td>Phone:</td>
<td>6125 1178</td>
</tr>
<tr>
<td>Email:</td>
<td><a href="mailto:Damien.Eldridge@anu.edu.au">Damien.Eldridge@anu.edu.au</a></td>
</tr>
<tr>
<td>Office hours for student consultation:</td>
<td>TBA</td>
</tr>
<tr>
<td>Research Interests</td>
<td>Microeconomics, Mathematical Economics, Industrial Economics, Public Economics.</td>
</tr>
<tr>
<td>Relevant administrator</td>
<td>Karissa Carkeet</td>
</tr>
<tr>
<td>Phone:</td>
<td>6125 0384</td>
</tr>
<tr>
<td>Email:</td>
<td><a href="mailto:Enquiries.rse@anu.edu">Enquiries.rse@anu.edu</a></td>
</tr>
</tbody>
</table>

SEMESTER ONE
2016

http://programsandcourses.anu.edu.au/course/ECON7074
COURSE OVERVIEW
Course Description (optional)

Macroeconomics is concerned with the operation of the economy as a whole, with attention paid to such things as unemployment, inflation, and interest rates, determination of the level of national income, savings and investment, and the exchange rate and the current account of the balance of payments. The course develops a consistent model of the economy to explore the interactions of key macroeconomic markets and variables and to examine the impacts of different kinds of shocks to the economy and the role of government budgetary and monetary policy in influencing the level of economic activity.

Learning Outcomes

Upon successful completion of this course, students should be able to:

1. Understand the core theoretical models used by macroeconomists, in particular the neoclassical (Solow-Swan) growth model and the AS/AD-model;
2. Discuss the usefulness and limitations of these models;
3. Explain and understand some of the associated empirical implications and policy issues;
4. Critically read and understand many newspaper and magazine articles covering current economic events;
5. Have a brief overview of some of the institutional features of the Australian economy and some overseas economies.

Assessment Summary

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Value</th>
<th>Due Date</th>
<th>Date for Return of Assessment</th>
<th>Linked Learning Outcomes (optional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Complete all required assessment tasks for ECON 1102.</td>
<td>85 %</td>
<td>Various.</td>
<td>See ECON 1102 course outline.</td>
<td>All learning outcomes.</td>
</tr>
</tbody>
</table>

Feedback

Staff Feedback

Students will be provided with written feedback on their microeconomic policy brief assignment. The ECON 1102 course outline should be consulted for information about the feedback methods for other assessment items.
**Student Feedback**

ANU is committed to the demonstration of educational excellence and regularly seeks feedback from students. One of the key formal ways students have to provide feedback is through Student Experience of Learning Support (SELS) surveys. The feedback given in these surveys is anonymous and provides the Colleges, University Education Committee and Academic Board with opportunities to recognise excellent teaching, and opportunities for improvement.

For more information on student surveys at ANU and reports on the feedback provided on ANU courses, go to

http://unistats.anu.edu.au/surveys/selt/students/ and
http://unistats.anu.edu.au/surveys/selt/results/learning/

**Policies**

ANU has educational policies, procedures and guidelines, which are designed to ensure that staff and students are aware of the University’s academic standards, and implement them. You can find the University’s education policies and an explanatory glossary at:

http://policies.anu.edu.au/

Students are expected to have read the **Student Academic Integrity** Policy before the commencement of their course.

Other key policies include:
- Student Assessment (Coursework)
- Student Surveys and Evaluations

**Recommended Resources**

There is no required textbook for this unit. A reading guide is provided at the end of this course outline. The readings in that guide will, wherever possible, be made available online through links from the Wattle site for this course or in hardcopy through short-loan at the Chifley Library at ANU.

**COURSE SCHEDULE**

<table>
<thead>
<tr>
<th>Week</th>
<th>Tentative Summary of Activities</th>
</tr>
</thead>
</table>
| 2    | What topics do macroeconomists study?  
- Patterns in aggregate economic activity. 
- Decomposing time series of aggregate output (GDP) into trend and cycle components. |
- The trend component can be viewed as long-run growth in "potential" (or "full capacity") output. This topic is known as economic growth.
- The cycle component can be viewed as either short-run deviations below potential output (new Keynesian DSGE approach) or short-run fluctuations in potential output itself (real business cycle DSGE approach). This topic is known as business cycle analysis.
- In these additional classes, we will focus on some simple models of business cycles for a closed economy. Particular attention will be paid to the importance of government budget constraints and central bank balance sheet constraints in the assessment of macroeconomic policy impacts.

<table>
<thead>
<tr>
<th>3-4</th>
<th>The IS-LM model of an economy.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Simple fixed price Keynesian version.</td>
</tr>
<tr>
<td></td>
<td>• Simple fixed output neoclassical version.</td>
</tr>
<tr>
<td></td>
<td>• Comparative statics and the importance of government budget constraints and central bank balance sheet constraints.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5-6</th>
<th>The labour market and short-run aggregate supply.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The three-sector Keynesian-Neoclassical synthesis model of an economy.</td>
</tr>
<tr>
<td></td>
<td>• IS-LM as a model of aggregate demand rather than a complete general equilibrium for the economy (with some minor contortions).</td>
</tr>
<tr>
<td></td>
<td>• AD and upward sloping short-run aggregate supply.</td>
</tr>
<tr>
<td></td>
<td>• Comparative statics and the importance of government budget constraints.</td>
</tr>
</tbody>
</table>
Incorporating inflationary expectations.
- The Fisher equation.
- Static expectations.
- Adaptive expectations.
- Rational (model consistent) expectations.
- Is it rational to hold rational expectations?

The IS-IA model. (IA stands for “interest rate adjustment”, which refers to a central bank’s “policy reaction function”.)

Consumption, permanent income and Ricardian equivalence.

ASSESSMENT REQUIREMENTS

The ANU is using Turnitin to enhance student citation and referencing techniques, and to assess assignment submissions as a component of the University's approach to managing Academic Integrity. For additional information regarding Turnitin please visit the ANU Online website.

Students may choose not to submit assessment items through Turnitin. In this instance you will be required to submit, alongside the assessment item itself, copies of all references included in the assessment item.

Assessment Tasks

Assessment Task 1: Macroeconomic Policy Brief Assignment

Details of task:

Choose a macroeconomic policy issue and write a “policy brief” on this issue. The policy brief should identify the problem that might need addressing, examine the causes of this problem, assess the significance of the problem, suggest some potential solutions to the problem, and discuss the advantages and disadvantages of those solutions. You might consider the applied topics that are covered in ECON 1102 and in this supplementary set of classes for ECON 7074 when choosing the topic of your policy brief, but you are not restricted to just those topics. You should confirm with Dr Eldridge that your proposed topic is appropriate before beginning work on it.

Word limit: No fixed limit, but approximately 2000 words is suggested as a guideline.
Value: 15 %.
Due date: Friday 27 May 2016 at 5:00 pm.
Assessment Task 2: The assessment tasks for ECON 1102.

Details of task: See the ECON 1102 course outline for details.

Assignment submission

Online Submission: Assignments are submitted using Turnitin in the course Wattle site. You will be required to electronically sign a declaration as part of the submission of your assignment. Please keep a copy of the assignment for your records.

Extensions and penalties

Extensions and late submission of assessment pieces are covered by the Student Assessment (Coursework) Policy and Procedure.

The Course Convener may grant extensions for assessment pieces that are not examinations or take-home examinations. If you need an extension, you must request it in writing on or before the due date. If you have documented and appropriate medical evidence that demonstrates you were not able to request an extension on or before the due date, you may be able to request it after the due date.

Late submission of assessment tasks without an extension are penalised at the rate of 5% of the possible marks available per working day or part thereof. Late submission of assessment tasks is not accepted after 10 working days after the due date, or on or after the date specified in the course outline for the return of the assessment item.

Late submission is not accepted for take-home examinations.

Returning assignments

The graded versions of the policy briefs that are written by students will be available for collection by appointment fourteen days after the submission deadline.

Resubmission of assignments

No resubmission of assignments is allowed in this course.

Referencing requirements

All sources should be cited appropriately according to a widely used convention.

SUPPORT FOR STUDENTS

The University offers a number of support services for students. Information on these is available online from http://students.anu.edu.au/studentlife/

READING GUIDE

6 | THE AUSTRALIAN NATIONAL UNIVERSITY
Topic 1: What do macroeconomists study?


Topic 2: The circular flow model of an economy


Topic 3: The Keynesian cross model of an economy

- Waud, RN, P Maxwell and J Bonnici (1989), Macroeconomics (Australian edition), Harper and Row, Australia: Chapters 8-10 (pp. 169-249).

Topic 4: The IS-LM model of an economy

- Gali, J (1992), “How well does the ISLM model fit postwar US data?”, The Quarterly Journal of Economics 107(2), May, pp. 709-738. (Focus on the “abstract”, “introduction” and “summary and conclusion” sections. Do not worry about the technical parts of this paper, as they are beyond the scope of this unit.)
- Hicks, JR (1937), “Mr Keynes and the “classics”: A suggested interpretation”, Econometrica 5(2), April, pp. 147-159.
- King, RG (2000), “The new IS-LM model: Language, logic, and limits”, The Federal Reserve Bank of Richmond Economic Quarterly 86(3), Summer, pp. 45-103. (Focus on the general discussion contained in this paper. Do not worry about the technical parts of this paper, as they are beyond the scope of this unit.)
- McCallum, BT, and E Nelson (1999), “An optimizing IS-LM specification for monetary policy and business cycle analysis”, The Journal of Money, Credit and Banking 31(3)(Part 1), August, pp. 296-316. (Focus on the “abstract”, “introduction”, “weaknesses of IS-LM models” and “conclusion” sections. Do not worry about the technical parts of this paper, as they are beyond the scope of this unit.)
- Parkin, M, and R Bade (1990), Macroeconomics and the Australian economy (second edition), Allen and Unwin, Malaysia: Chapters 8-14 (pp. 141-256).
- Wells, G (1995), Macroeconomics, Thomas Nelson, Australia: Chapter 2, Chapter 3 and Chapter 9 (Section 1) (pp. 27-98 and 276-280).
**Topic 5: Labour markets and short-run aggregate supply**


**Topic 6: The three-sector Keynesian-Neoclassical synthesis model of an economy**


**Topic 7: Incorporating inflationary expectations**

- Sieper, E (1987), *Policy irrelevance is not the rule*, Unpublished Working Paper, The Australian National University, Canberra, November. (Focus on the general discussion contained in this paper. Do not worry about the technical parts of this paper, as they are beyond the scope of this unit.)

**Topic 8: The IS-LM model of an economy**


**Topic 9: Consumption, permanent income and Ricardian equivalence**


Friedman, M (1957), *A theory of the consumption function*, Princeton University Press, USA.


**Advice on Writing for Economists**

  - Or some other decent dictionary.
  - Note that EB White is the author of *Charlotte's web*.
  - Or some other decent thesaurus.