

**Boise State University**  
**Principals of Macroeconomics**  
**ECON 201, Section 001, Business Building, Room B105**  
**Fall Semester 2009**

<b>Instructor:</b>	John Church	<b>Textbook: <u>Macroeconomics</u></b>
<b>BSU Phone:</b>	426 - 3465	Krugman and Wells, 2nd Edition, Worth Publishing
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<b>e-mail:</b>	<a href="mailto:ideconomics@earthlink.net">ideconomics@earthlink.net</a>	<b>Location &amp; Time:</b> Business Building, Room B105
<b>Office Hours:</b>	10:40 a.m. – 11:30 a.m. and by appointment.	MWF -- 9:40 a.m. to 10:30 a.m.

### **Course Description:**

ECON 201, Principles of Macroeconomics, is one class of the two-course sequence of introductory economics courses. In ECON 201 we will define economics, explore the underlying fundamentals common to all economic systems, and develop and examine a basic framework for analysis of the overall economic interactions that take place in our economy. In the first weeks of the course we will examine the problems caused by scarcity, how prices in our economy act effectively to allocate scarce resources between all participants in our economy. Building on these fundamentals, we will then explore the measurement of aggregate economic activity, unemployment, and the price level (inflation). This will lead to the exploration of theories regarding overall economic activity and the policies that decision-makers use to control economic activity.

Having developed these fundamental theoretical tools, we will then focus upon the role that money plays in our economy, the importance of the banking system, and the important role that the Federal Reserve Banking System has in maintaining economic stability and growth. Lastly, we will explore some areas of current macroeconomic interest such as the Federal Budget deficit/surplus, economic growth, and international trade.

### **Objectives:**

It is the objective of this course to provide a understanding of how the interactions of varied economic units (the individual, household, or firm) weave together to influence the overall economic system. It is expected that the student will come away from ECON 201 with a new appreciation of the economic interactions that they observe and are participants in each day. But most importantly, it is hoped that the student will acquire the skills to critically analyze economic phenomena or economic policy decisions.

### **Grading:**

There will be two exams, each worth 100 points, a number of "exercises" that will be, in total, worth 100 points, plus a final exam worth 150 points. The overall semester grade will be based upon the sum of the grades received in the four exams and the "exercises" compared to the maximum of 450 points that are possible during the semester. Letter grades will be based upon the "traditional" 90+% of the total points equals an "A"; 80 - 89% equals a "B"; 70 - 79% equals a "C", etc. The plus/minus grading system will be used to adjust grades that are between the cutoff points of the above determined letter grades.

# Learning Goals for Principles of Macroeconomics

## Critical Thinking/ Problem Solving Skills

### **Overall Goal:**

A student who has completed the economics principles sequence should be able to think critically and be able to apply economic reasoning in making personal and business decisions and in analyzing public policies. A student should be able to identify and discuss major U. S. and international economic institutions, central concepts in a core body of economic literature, and the major economic issues facing the U. S. and the world

### **Ethical Issues in Macroeconomics**

The student should be able to identify the consequences of macroeconomic fluctuations and of economic growth and should be able to evaluate them from an ethical point of view.

## Communication Skills

### **Skill in Using Diagrams to Express Relationships**

The student will be able to use appropriate diagrams and time series graphs to express macroeconomic relationships and to predict the consequences of changes in relevant variables.

## Breadth of Knowledge and Intellectual Perspective

### **Gross Domestic Product and its Components**

Students should be able to explain what GDP is and how it, over time, can be a crude measure of economic well being of an economy. Students should be able to identify the components of GDP and explain the roles of consumption, saving, and investment.

### **Economic Fluctuations**

Students should be able to explain the causes and consequences of the fluctuations of real GDP.

### **Unemployment and Inflation**

The student should be able to explain the meaning of unemployment and of inflation. The student should be able to relate the problems of unemployment and inflation to the fluctuation of GDP.

### **Fiscal and Monetary Policies**

The student should be able to identify and explain the two major governmental policies that attempt to smooth out economic fluctuations, curb inflation, and create jobs. Students will be able to identify the governmental agencies whose task it is to deal with inflation and unemployment and explain the strategies they use.

### **Money and the Price Level**

The student should be able to discuss the role and nature of money and the relationship of monetary policy to the general level of prices and to the performance of the economy. Students should be able to distinguish between real and nominal quantities and real and nominal interest rates.

### **International Institutions and Issues**

The student should be able to explain the economic basis for U.S. trade with the rest of the world and the gains that can accrue to participating countries. The student should be able to discuss international economic institutions and explain factors that influence currency values and trade flows. The student should have some insight into the meaning and impact of globalization.

# ECON 201: Principles of Macroeconomics

# Section: 001

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**Textbook:** Macroeconomics, by Robert Krugman and Robin Wells, 2nd Edition, Worth Publishers

**Instructor:** John Church, Room B311, 426-3465, or 323-0732 (hm), or ideconomics@earthlink.net

Week/Date	Topic	Important Dates
<b>Week 1:</b> Aug. 24 - 28	<b>Chapter 1: First Principals</b> Economics, Macroeconomics, Microeconomics Macroeconomic Ideas: Rational Choice, The Standard of Living and Productivity The Cost of Living and the Quantity of Money <b>Chapter 2: Economic Models - Trade-offs and Trade</b> What, How, and for Whom? Circular Flows - Households and Firms, Markets, Government, & Financial Sectors Production Possibilities, Opportunity Cost, Specialization and Exchange Gains from Trade, Comparative Advantage, Absolute Advantage	
<b>Week 2:</b> Aug. 31- Sept. 4	<b>Chapter 3: Supply &amp; Demand: A Model of a Competitive Market</b> Demand The Law of Demand, The Determinants of Demand Changes in Demand, Changes in the Quantity Demanded Supply The Law of Supply, The Determinants of Supply Changes in Supply, Changes in the Quantity Supplied Market Equilibrium Price: a Market's Automatic Regulator Changes in Demand, Changes in Supply, Flexible Prices, Surpluses, Shortages	
<b>Week 3:</b> Sept. 7 - 11	<b>Chapter 4. The Market Strikes Back</b> <b>Why Governments Control Prices</b> <b>Price Ceilings</b> Modeling a Price Ceiling Why a Price Ceiling Causes Inefficiency <b>Price Floors</b> A Price Floor Causes Inefficiency Why Price Floors? So Why Are There Price Ceilings?	<b>Sept. 7 - Labor Day Holiday - No Class</b>
<b>Week 4:</b> Sept. 14 - 18	<b>Chapter 5 Appendix: Consumer and Producer Surplus</b> <b>Consumer Surplus and the Demand Curve</b> Willingness to pay, the demand curve, and consumer surplus. <b>Producer Surplus and the Supply Curve</b> Cost, the supply curve, and producer surplus.	<b>Sept. 18 - 1st Exam Chapters 1 - 5</b>
<b>Week 5:</b> Sept. 21 - 25	<b>Chapter 5: International Trade</b> <b>Comparative Advantage and International Trade</b> Production possibilities and comparative advantage, revisited The gains from international trade. <b>Supply, Demand, and International Trade</b> The effects of imports The effects of exports <b>The Effects of Trade Protection</b> The effects of a tariff or an import quota. <b>The Political Economy of Trade Protection</b> Arguments for trade protection	
<b>Week 6:</b> Sept. 28 - Oct. 2	<b>Chapter 6: Macroeconomics the Big Picture</b> The Business Cycle Expansion, Contractions, & Recessions Employment and Unemployment Long-Run Economic Growth.	
<b>Week 7:</b> Oct. 5 - 9	<b>Chapter 7: Tracking the Macroeconomy</b> <b>The National Accounts</b> What GDP tells us Calculating real GDP The circular-flow diagram, revisited & expanded GDP & Calculating GDP Understanding the unemployment rate Growth and unemployment <b>Real GDP: A Measure of Aggregate Output</b> <b>Price Indexes and the Aggregate Price Level</b>	
<b>Week 8:</b> Oct. 12 - 16	<b>Chapter 8: Unemployment and Inflation</b> <b>The Unemployment Rate</b> Unemployment. Did you know that you have to pass a test to be unemployed? Cyclical, Structural, Frictional, and Seasonal Unemployment. Inflation and Deflation. <b>The Natural Rate of Unemployment</b> <b>Inflation &amp; Deflation</b> The Consumer Price Index, Constructing the CPI, The CPI Basket, Calculating the CPI The CPI and the Cost of Living, The Biased CPI, Effects of CPI Bias.	

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<b>Week 9:</b> Oct. 21- 25	<b><u>Chapter 10: Savings, Investment Spending, &amp; the Financial System</u></b> <b>Matching Up Savings and Investment Spending</b> The savings–investment spending identity      The market for loanable funds Savings, investment spending, and government policy <b>The Financial System</b> Types of assets      Financial intermediaries	<b>Oct 25 - 2nd Exam</b> <b>Chapters 5 - 10</b>
<b>Week 10:</b> Oct. 26 - 30	<b><u>Chapter 11: Income and Expenditure</u></b> <b>The Expenditure Multiplier</b> The Marginal Propensities to Consume and Save <b>Consumer Spending</b> Shifts of the aggregate consumption function Current disposable income and consumer spending <b>Investment Spending</b> The interest rate & investment spending <b>The Income-Expenditure Model</b> Planned aggregate spending and real GDP      Income–expenditure equilibrium	
<b>Week 11:</b> Nov. 2 - 6	<b><u>Chapter 12: Aggregate Supply and Aggregate Demand</u></b> <b>Aggregate Demand</b> Why is the AD curve downward-sloping? Shifts in the aggregate demand curve.      Government policies & aggregate demand <b>Aggregate Supply:</b> The short-run AS curve      Supply shocks Shifts of the short-run AS curve.      The long-run AS curve <b>The AS–AD Model</b> Short-run macroeconomic equilibrium Shifts of the SRAS curve.      Shifts in aggregate demand: Short-run effects. <b>Macroeconomic Policy</b> Policy in the Face of Demand and Supply Shocks.	<b>Nov. 20 - 3rd Exam</b> <b>Chapters 11 - 14</b>
<b>Week 12:</b> Nov. 9 - 13	<b><u>Chapter 13: Fiscal Policy</u></b> The government budget and total spending Taxes, purchases of goods and services, government transfers, and borrowing Expansionary and contractionary fiscal policy.      Deficits, surpluses, and debt Multiplier effects of an increase in government purchases of goods and services Multiplier effects of changes in government taxes and transfers Should the budget be balanced?      Problems posed by rising government debt	
<b>Week 13:</b> Nov. 16 - 20	<b><u>Chapter 14: Money, Banking, and the Federal Reserve System</u></b> <b>The Meaning of Money</b> Roles of money. Types of money. <b>The Monetary Role of Banks</b> The problem of bank runs. What banks do.      Bank regulation. <b>Determining the Money Supply</b> Measuring the money supply. How banks create money      Reserves, deposits, & the money multiplier The Fed: America's Central Bank      Open-market operations What the Fed does: Reserve requirements and the discount rate	
<b>Week 14:</b> Nov. 23 - 27	<b><u>Thanksgiving Vacation</u></b>	<b>Thanksgiving Holiday</b>
<b>Week 15:</b> Nov. 30 - Dec. 4	<b><u>Chapter 15: Monetary Policy</u></b> <b>The Demand for Money</b> The opportunity cost of holding money The money demand curve.      Prices and demand for money. <b>Monetary Policy &amp; Aggregate Demand</b> Monetary policy & the interest rate Expansionary & contractionary monetary policy      Monetary neutrality <b>Money, Output, &amp; Prices in the Long Run</b> Short-run and long-run effects of an increase in the money supply	
<b>Week 16:</b> Dec. 4 - 11	<b><u>Chapter 16: Inflation, Disinflation, and Deflation</u></b> <b>Money &amp; Inflation</b> Money and prices, revisited.      The Logic of Hyperinflation <b>Effects of Inflation</b> Winners & losers from unexpected inflation Expected inflation & interest rates,      The costs of inflation <b>Moderate Inflation &amp; Disinflation</b> Effects of ex <sub>i</sub> Causes of moderate inflation <b>Disinflation</b> The problem of disinflation	
<b>Final Exam:</b>	<b>Final Exam -- Monday, December 14, 2009: 10:30 a.m. - 12:30 p.m.</b> <b>Final Exam: Chapters 15 - 16 + Comprehensive</b>	<b>Dec. 14: Final Exam</b>