

ECONOMICS 320
Macroeconomic Theory II
Fall 2009

Instructor:

Allen Head
234 Dunning Hall
533-6308
heada@econ.queensu.ca

T.A.'s:

Monica Jain
335 Dunning Hall
533-2280
jainm@econ.queensu.ca

Davood Motadayyen
333 Dunning Hall
533-6000 x75482
davood@econ.queensu.ca

Course Web-site:

<http://www.econ.queensu.ca/pub/faculty/head/econ320/econ320.html>

Class Times:

The class will meet Tuesdays at 4:00pm and Thursdays at 2:30pm in **Kingston 200**.

Text:

Macroeconomic Theory and Policy by David Andolfatto, Simon Fraser University, 2008.

The text is available at the Publishing and Copy Centre in the basement of the John Deutsch University Centre. It is also available as a pdf file from the link on the Econ 320 web-site.

Course Description:

This course will focus primarily on the causes, characteristics, and consequences of short- and medium-run fluctuations in aggregate economic activity (*i.e.* “business cycles”). The analysis will be conducted within the context of neoclassical models, and much of the course will be devoted to developing these models. Some attention will be devoted also to the effects of government policies on aggregate economic variables in these models.

Course Requirements:

The final grade will be a weighted average of marks on homework assignments and two exams: a midterm and a final. The weights used in marking will be:

Assignments	15%		
Midterm Exam	35%	or	20%
Final Exam	50%	or	65%

The weighting of the two exams will be chosen automatically to maximize your average. While homework assignments will receive a relatively small weight in determining the final mark, they are still very important. This course will be heavily oriented toward setting up and solving explicit problems. The homework assignments will provide practice on problems similar to those that will be on the exams. Late homework assignments will not be accepted. Assignments will be posted as pdf files on the course web-site as they are assigned. Answers will be posted as well, after the assignment due date. Assignments should be handed in using the collection box located on the second floor of Dunning Hall. Note that all assignments should have the economics cover-sheet to facilitate their return by the Distribution Centre, which is now located in 311 Dunning Hall.

The midterm will be held **during the class period on Tuesday, October 27th**. The date, time and place of the final exam will be determined by the university-wide final exam schedule.

Course Outline

1. Introduction

What is Macroeconomics?
Empirical Observations
An Overview of Theories of the "Business Cycle"

Chapter 1, pp.31-35.

2. Measuring Economic Activity

There will be no lecture on this material. Please read Chapter 1, pp. 1-23.

3. Employment and the Labour Market

Empirical Observations
Households' Labour Supply
Firms' Labour Demand
Equilibrium in the Labour Market

Chapter 2, pp. 38-52 and pp. 58-61.

4. Productivity Shocks and Business Cycles

Fluctuations in Employment, Output, Consumption, and Wages
Implications of the Theory for Government Policies

Chapter 2, pp. 53-57.

5. The Roles of Uncertainty and Expectations

a. Rational Expectations and the Business Cycle

Incorporating Uncertainty in to the Static Model
Equilibrium
Generating Business Cycles
Policy Implications

b. Irrational Expectations and the Business Cycle

Defining Irrational Expectations
Policy Implications

c. Self-Fulfilling Prophecies

Chapter 3, pp. 63-75.

6. Incorporating Unemployment

Concepts and Data
A Search Model
Policy Implications

Chapter 4, pp. 77-93.

7. Incorporating Government
 - a. Government Spending
 - Lump-sum Taxation
 - Income Taxation
 - Comparison of Financing Options
 - b. Government Transfers

Chapter 6, pp. 129-141.
8. A Dynamic Model of Consumption and Savings
 - a. A Two-Period Model
 - An Economy in Autarky
 - A 'Small Open' Economy
 - The Trade Balance and Current Account
 - b. Incorporating Shocks
 - Productivity Shocks
 - Real Interest Rate Shocks
 - c. The Savings Demand Function
 - d. Borrowing Constraints
 - e. Large Open Economics

Chapter 5, pp. 99-128.
9. Government in the Dynamic Model without Leisure
 - Household and Government Budget Constraints
 - Ricardian equivalence
 - Changes in Government Spending
 - Chapter 6, pp. 142-147.**
10. Government in the Dynamic Model with Leisure
 - Household and Government Budget Constraints
 - Ricardian Equivalence
 - Changes in Government Spending
 - Chapter 6, pp. 147-152.**
11. Investment and Capital Accumulation
 - An Economy in Autarky
 - A Small Open Economy
 - Productivity Shocks
 - Large Open Economies
 - Chapter 7, pp. 155-171.**
12. Money and Inflation
 - An Overlapping Generations Model of Money
 - Inflation
 - Chapter 8, pp. 172-185.**

Other Information:

Please read the following statements by Queen's University regarding academic integrity:

Academic integrity is constituted by the five core fundamental values of honesty, trust, fairness, respect and responsibility (see <http://www.academicintegrity.org>).

These values are central to the building, nurturing and sustaining of an academic community in which all members of the community will thrive. Adherence to the values expressed through academic integrity forms a foundation for the "freedom of inquiry and exchange of ideas" essential to the intellectual life of the University (see the Senate Report on Principles and Priorities at:

<http://www.queensu.ca/secretariat/senate/policies/princpri/>

Additional information can be found at the Academic Integrity Queen's web site:

<http://www.queensu.ca/academicintegrity/>