

PRINCIPLES OF MACROECONOMICS
ECONOMICS 100-002H
AMERICAN UNIVERSITY
FALL 2002

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Welcome to Econ 100! The goals of this course are to introduce you economics and to help you develop and apply “the economic way of thinking.” The economic way of thinking is a framework for critical analysis that you can apply to a wide variety of personal and social issues. It can help you focus on the gains and losses at stake in specific situations as well as the potential winners and losers created as a result of the outcome. We will also examine the role of markets in allocating resources and demonstrate the potential gains from trade.

Most importantly, we will intensively study the behavior of the economy as a whole, which is the subject of macroeconomics. Macroeconomics is concerned with explaining economic events such as recessions and trade deficits, as well as episodes of widespread unemployment and high inflation. Understanding how the economy works on a macroeconomic scale will help you develop well-reasoned answers to questions such as:

- Can the government promote faster economic growth? Can it prevent or shorten a recession?
- Why are some countries poor while others are rich?
- What is the “Fed?” Has it done enough to promote economic recovery?
- How do banks create money?
- How will the Bush tax cut affect the economy?
- Will the recent fall in the value of the dollar help the economy?
- Are there risks to our economic well-being from the growing federal budget deficit?

Economics 100 will also improve your ability to read about current events in the popular press, understand the economic issues involved, and evaluate what is being said and done—in other words, to separate the sense from the nonsense. By the end of the term, I hope you will be prepared to use the lessons of economics to help make your own life more productive, responsible, and rewarding.

Tips on how to do well in this course:

Try to find other students to work with. When doing problem sets, try working through the problems on your own first, then try to help each other out. Write up your final copy to turn in on your own. Educational research has shown that students working together learn better than students working entirely alone.

When you read a chapter in the text, try taking notes in the margin or making an outline on a separate sheet of paper. Sometimes this increases retention of the ideas more effectively than highlighting.

OTHER IMPORTANT INFORMATION

Office hours: Tuesdays and Fridays 3:00-6:00 and by appointment. Please stop by to see me at least once during the semester. You can also contact me by E-mail.

Required texts: Mankiw, Gregory. Principles of Macroeconomics. Second edition. (New York: Harcourt, 2001.)

Purposes and Functions of the Federal Reserve System (This book will be provided to you for free, courtesy of the Fed.)

Required readings: There are readings on electronic reserve at the library. These may be accessed through the Blackboard site for this course. If you have trouble accessing the site please see me immediately. There will also be additional readings handed out in class.

Evaluation: You will have the opportunity to be evaluated in a variety of ways over the semester. In addition to problem sets and exams, there will be a journal in which you collect and analyze news articles. There is also a writing assignment and a team presentation. This portfolio of activities has been deliberately designed to allow each of you the chance to demonstrate your level of achievement in the course in the manner best suited to you.

IMPORTANT DATES:

		<u>Weight in final grade</u>
Tuesday, October 1	Midterm 1	15%
Friday, October 18	Journal	10%
Tuesday, November 12	Midterm 2	15%
November 15, 19, 22	Team presentation	10%
Friday, December 6	Writing Assignment	20%
Tuesday, December 17	Final Exam	20%
Throughout the semester	Problem sets, participation	10%

In order to pass the course, you must complete all of the formal assignments. In addition, class attendance is mandatory—that means that unexcused absences will result in a significantly lower grade than the one calculated on the weights and description above.

Participation refers to performance in class discussions of ideas, problems, and articles. The special team presentations are scheduled for November 15, November 19, and November 22. Attendance is required at each of the team presentations.

PLEASE NOTE: NO LATE ASSIGNMENTS WILL BE ACCEPTED. Each problem set is due at the start of class on the dates listed below.

THERE WILL BE NO MAKEUP EXAMS. You should make every effort to take the midterm exams as scheduled. If you miss a midterm exam for any reason, the final exam will receive more weight in your overall grade.

If you find yourself having difficulty with any of the ideas in the course, I encourage you to see me promptly. I can be most helpful when I have the chance to consult with you early.

INFORMATION ABOUT THE JOURNAL

Each student must locate and analyze five (5) articles from newspapers or magazines (either in print or on the web). The articles must be directly related to the economic principles that we discuss in this course. You must include the following information for each of the five entries:

- A copy of the article
- A citation that tells where the article is from and when it was published (all articles must be dated after August 1, 2002)
- A one paragraph summary of the article's main points
- A one to two paragraph analysis of how the article illustrates (or is related to) one or more of the points from the course
- You must also add a graph and your own opinion of the issues presented in the article
- You must type the summary and analysis for each article
- Please be neat

RECOMMENDED SOURCES:

The Washington Post
The New York Times
The Economist
The Wall Street Journal
The Financial Times

Please remember the due date.

INFORMATION ABOUT THE WRITING ASSIGNMENT

Each student will be required to write a paper (approximately 7-10 pages, not including tables, charts or graphs) in which the macroeconomic situation of the United States is compared to another country. The country used for comparison can be another industrialized country (such as Canada or Germany) or a developing country (such as Mexico or Turkey). The time horizon should be recent (the past 5-10 years).

After the comparison is complete, you should suggest and analyze ONE macroeconomic change that you believe would improve the economic performance of the U. S. and then suggest ONE for the country you have selected for comparison. [They can be, and probably should be, different policies.]

More information about the specific format will be distributed later in the semester.

GENERAL EDUCATION REQUIREMENTS: This course, ECON 100 Macroeconomics, is one of eight foundation courses in Curricular Area 4 (Social Institutions and Behavior) in the University's General Education Program. It is the first of a two-course sequence. You must take one of the following courses in order to complete the General Education requirements for Curricular Area 4:

AMST-240	Poverty and Culture
FIN-200	Personal Finance and Financial Institutions
ECON-200	Microeconomics
GOVT-210	Political Power and American Public Policy
SOCY-210	Inequality: Class, Race, and Ethnicity
SOCY-220	Work and Leisure in America

ACADEMIC INTEGRITY: Standards of academic conduct are set forth in the University's Academic Integrity Code. By registering at the university, you have acknowledged your awareness of the Academic Integrity Code and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the Academic Integrity Code will not be treated lightly, and disciplinary actions will be taken should such violations occur. Please see me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course.

GRADING GUIDELINES: Please refer to the following standards for grades assigned in this course.

Students who get top grades (A, A-, B+) generally

- Display enthusiasm for discovering and mastering ideas related to economic behavior.
- Submit written work that is thoughtful, well-organized, and carefully researched. Their final papers are typed and free of grammatical errors.
- Complete all assigned readings on time and incorporate the information in their exams, written work, and active participation in class.
- Attend all classes (and offer an explanation if they are ever absent). They make up all work they miss if absent.
- Work cooperatively and productively in a group.
- Come by my office with both specific and general concerns.

Students who get middle grades (B, B-, C+, C) generally

- Master some but not all of the ideas in the course.
- Sometimes get distracted while working with others in a group.
- Participate in class discussions and ask occasional questions.
- Complete all of the written assignments and readings.
- Come by my office for help if there is a specific problem.

Students who get low and failing grades (C-, D, F) generally

- Don't turn in assigned work or turn it in late without adequate explanation.
- Submit poor quality work that demonstrates fundamental misunderstandings of the material.
- Miss many classes without any explanation.
- Demonstrate no familiarity with the material when they are called on in class.
- Behave in an unproductive manner when they are part of a group.

COURSE SCHEDULE

Topics, Readings, and Assignments

Readings denoted by (*) will be distributed in class. Others can be found on the Blackboard site for the course.

A. Introduction to Economics and the “Economic Way of Thinking”

- Tuesday, Aug. 27 Introduction. Opportunity cost and gains from exchange
Readings: Mankiw, chs 1 and 2 and
“Marginal Values and Economic Decisions” (*)
“A Divorced Spouse’s Professional Degree” (*)
- Friday, Aug. 30 Comparative Advantage and the gains from trade
Readings: Mankiw, ch 3
In-class exercise
“Let Them Sweat”

B. The Workings of a Market Economy

- Tuesday, Sept. 3 Demand and supply
Reading: Mankiw, ch 4
- Friday, Sept. 6 More on demand and supply
In-class exercises
Readings: “The Power of the Market,” Chapter 1 in Free to Choose, pp. 9-37
“Greed Is Bad”
“Invisible Hand Works Because of Invisible Handshake”
“US Businesses Dim as Models for Foreigners”
- Tuesday, Sept.10 Demand and marginal benefit; Supply and marginal cost
Readings: Mankiw, ch 7 pp. 142-158
In-class exercise
- PROBLEM SET # 1 DUE: Tuesday, September 10 at the start of class**
- Friday, Sept. 13 Demand elasticity and policies to curb drug use
Reading: Mankiw, ch 5 pp. 94-102 and 112-113
‘Four Knight Ridder Papers Cut Prices’ (*)
- Tuesday, Sept. 17 Who gains from imports and exports? Tariffs and deadweight loss
Readings: Mankiw, ch 9 and
“The Controversy Over Free Trade: The Gap Between Economists and the General Public”
“US Trade Panel Seeks Restrictions on Imported Steel”(*)
“US Admits That Politics Was Behind Steel Tariffs”(*)
“Eu, Japan Look to Hit Back on US Steel Tariffs”(*)
“US-Canada Tomato War Heats Up”(*)
“US Will Impose 29% Tariff on Canada Building Lumber”(*)
‘Canada, US to Settle Lumber Dispute’(*)

C. Macroeconomics and Long Run Growth

Friday, Sept. 20 Measuring economic performance: real and nominal GDP
Reading: Mankiw, ch 10

Tuesday, Sept. 24 Measuring inflation: the CPI and GDP price deflator
Reading: Mankiw, ch 11

PROBLEM SET # 2 DUE: Tuesday, Sept. 24 at the start of class

Friday, Sept. 27 Unemployment and its “natural rate”
Reading: Mankiw, ch 14
“German Joblessness Hits 9.7%”
“Economy Creates 58,000 Jobs, but Jobless Rate Rises to 5.7%”
“Attacks Hit Low-Pay Jobs Hardest”
“As Salary Grows, So Does a Gender Gap”

Tuesday, Oct. 1 **MIDTERM # 1**

Friday, Oct. 4 Productivity and long run economic growth
Readings: Mankiw, ch 12 and

Tuesday, Oct. 8 **FALL BREAK**

D. Financial Markets, Interest Rates, and the Money Supply

Friday, Oct. 11 Financial markets: how bonds and stocks are priced
Reading: Mankiw, ch 13, pp. 265-271 and p. 279.

Tuesday, Oct. 15 How savings and investment determine real interest rates
Reading: Mankiw, ch 13, pp. 271-287

Friday, Oct. 18 How banks create money
Readings: Mankiw, ch 15

JOURNAL DUE: Friday, October 18 at start of class

Tuesday, Oct. 22 Central banking in the United States: The Federal Reserve System
Reading: Purposes and Functions of the Federal Reserve System.
Chapters 1, 2, and 3

E. Short Run Economic Fluctuations

Friday, Oct. 25 Explaining recessions: Aggregate demand and Aggregate Supply

Readings: Mankiw, ch 19 and
“NYC Economy Struggles After 9/11”
“Laid Low by Last Recession, California is Ready for Next”

PROBLEM SET # 3 DUE: Friday, Oct. 25 at the start of class

Tuesday, Oct. 29 AD/AS continued: Workshop on the Self-correcting Mechanism

Readings: “The Price of Oil has Doubled this Year: So Where’s the Recession?” (*)
“Two Books Seek Lessons From the Great Depression”

Friday, Nov. 1 Fiscal Policy

Readings: Mankiw, ch 20, pp. 456-469
“Fed Chief Urges a Considered Recovery Plan”
“Tax Cuts Recommended in Japan”
“Rates Remain High. Blame Bush Budget or Big Expectations?”

Tuesday, Nov. 5 Monetary policy. The costs of reducing inflation.

Readings: Mankiw, ch 20 pp. 445-456 and ch 21, pp. 490-496
“Japan’s Premier Muses on a Recovery-Proof Economy”
“News Analysis” The First Cut Is Not Taxes”
“The Fed Moves First”
“What the Fed Can’t Do About This Recession”

PROBLEM SET # 4 DUE: Tuesday, Nov. 5 at the start of class

Friday, Nov. 8 **MIDTERM # 2**

F. Controversies in Macroeconomic Policymaking

Tuesday, Nov. 12 Mistakes of the Past: How Federal Reserve policy changed to combat inflation

Friday, Nov. 15 Japan’s economic slowdown

TEAM PRESENTATIONS

Tuesday, Nov. 19 Fed policy in the 1990’s and “irrational exuberance”

TEAM PRESENTATIONS

Friday, Nov. 22 Macroeconomic crises in Latin America: Argentina and Brazil

TEAM PRESENTATIONS

G. The Global Economy and US Macroeconomic Policy

Tuesday, Nov. 26 Trade balances and exchange rates
Readings: Mankiw, ch 17, pp. 369-382 and
“Trade Deficits Won’t Ruin Us” (*)

Friday, Nov. 29 **THANKSGIVING BREAK**

Tuesday, Dec. 3 Policy in an open economy
Reading: Mankiw, ch 18

Friday, Dec. 6 Policy in an open economy, continued
Reading: “Betting Against the Dollar: A Key to Gains in Bonds”

**WRITING ASSIGNMENT DUE: Friday, December 6
(at the start of class)**

Friday, Dec. 17 **FINAL EXAM (11:20-2:00 PM)**