

CALIFORNIA STATE UNIVERSITY, SACRAMENTO
DEPARTMENT OF ECONOMICS

Economics 1A, Introduction to Macroeconomic Analysis
Spring, 2003

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READ THIS SYLLABUS THROUGH

Over the course of the next 15 weeks, the student will be introduced to fundamental concepts and theory surrounding macro economic activity, and the relationship between this activity and larger social relations and institutions. The main learning objectives of this course are: development of a basic understanding of (1) key economic concepts such as opportunity costs, externalities, supply and demand, fiscal and monetary policy, inflation, unemployment, Gross Domestic Product, multipliers, balance of trade and payments; (2) major theoretical structures, focusing on the neoclassical and Keynesian perspectives; (3) international trade relationships; (4) issues and problems generated by inequality, including those related to race and gender. We shall also deal, though in a less thorough fashion with methodological issues, including the extent to which economics can be considered a science; economic behavior in its relation to society and possible conflicts between narrow economic objectives and social objectives; some comparative analysis demonstrating the ways different societies have and do approach the issues economists deal with, and an appreciation for why we observe such differences. Attention will also be given to specific issues affecting populations based on age, race, and gender differences.

This course satisfies the requirements of General Education Area D1a, Foundations in Social and Behavioral Sciences.

Catalogue Description: An introductory inquiry into the workings and interrelationships of the aggregate economic system. The primary focus is on total production and its distribution, employment and price levels, and the forces influencing them. Other considerations are the roles of government, the monetary sector, and related areas.

Required Texts:

Tucker, Irvin, *Macroeconomics for Today* and accompanying *Study Guide*
Friedman, Miller, et al., *Real World Macro (RWM)*, 19th ed.
Cassidy, John, *Dot.Con: The Greatest Story Ever Told*

Course Outline and Required Readings: N.B: The study guide “assignments” correspond to the chapters specified in Tucker. While I will not ask you to hand in these assignments, it is in your interest to actually work through the exercises. Please do so. The following outline is organized on a weekly basis and may be slightly modified as we move forward.

1. Introductory statements: **Tucker**, ch. 1 (including appendix).

- The nature and structure of the economy; “circular flow” and aggregate economic activity; the “economy” and the “market”—what is capitalism?; the nature of theory and the role of assumptions; can economics be a science?
- 2 National Income Accounting: **Tucker**, ch. 5; **RWM**, selections 1-5
 Definition and problems of measurement; what’s left behind?—”women’s work”; social security and transfer payments; constructing and using a price index; the relation between output and income; GDP as a measure of well-being—why war, earthquakes, environmental degradation are good for you!
 3. National Income Accounting, cont; the business cycle, unemployment, inflation: **Tucker**, chs. 6, 7; **RWM**, selections 6-12, 33, 35.
 The nature of the cycle; measuring unemployment the Natural Rate of Unemployment, the NAIRU; racial bias in measuring unemployment rates?; what is inflation?; is there a trade-off between inflation and unemployment rates?
 4. Some standard theoretical tools of the neoclassical Approach: **Tucker**, chs. 2-4
 Production possibilities, supply and demand, the nature of markets.
 5. The “Classical” Model; initial statement: **Material to be distributed**; **Tucker**, pp. 179-180; 374-8; **RWM**, selections 13-14.
 Production possibilities and opportunity costs; basic supply-demand analysis; combining a Benthamite society and Say’s Law; C-M-C’; labor market equilibrium; aggregate supply/demand analysis; the quantity theory of money; investment in the “classical” theory; why a relatively *laissez faire* policy approach?
 6. The Classical Model continued: **Tucker**, ch. 10, including Appendix; **RWM**, selection 36.
 7. The “Keynesian” Model: **Tucker** chs. 8-9; **RWM**, 42.
 M-C-M’; income, not price adjustments; the consumption and savings functions; the marginal propensity to consume; the multiplier; the investment function; aggregate demand; unemployment “equilibrium”; government spending; net exports; inflation?; the debt economy.
 8. The Keynesian Model continued
 9. The Keynesian Model continued
 10. Fiscal Policy, National Debt, the Role of Government: **Tucker**, chs. 11-13; **RWM**, 18, 19, 21-25.
 Taxes and spending; tax regimes—progressive, regressive, flat; balanced budgets?; crowding out?; fiscal policy, income distribution, and consequences for different income groups.
 11. Money, Banking, and Monetary Policy: **Tucker**, chs. 14-15 (maybe ch. 17).
 What money is; what money is not; functions of money; money as debt; money creation and the money multiplier; the transactions and asset demand for money; central banking and the Fed; monetary policy; the recent historical record.
 12. Money continued
 13. Money continued; some debates: **Tucker**, ch. 16 (maybe ch. 17); **RWM**, 26-32.
 Why economic controversies; the nature of a monetary economy; rules vs discretion—the underlying rationales.
 14. The International Economy and its relation to domestic policy: **Tucker**, ch. 18; **RWM**, 41-50.
 Comparative advantage; the gains from trade; free trade?; what is the IMF? The WTO?;

exchange rates; the balance of payments; is the foreign sector independent of the domestic economy?; is the domestic economy independent of the foreign sector?

15. Summation and Argument: The Case of the '90's: Cassidy, *Dot.Con*

Examinations: Dates of examinations will be announced with at least one week's notice. The final examination will be held as per the university schedule.

#1 - Covers material in weeks **1-3**

#2 - Covers material in weeks **4-6**

#3 - Covers material in weeks **7-10**

Final Examination - Inclusive, but will focus on Money, the Keynesian/"New Classical"

controversy and the international aspects of macro theory and policy -- weeks **11-15**. I shall ask questions from each previous mid-term exam, and questions drawn from the material since the third mid-term.

Each midterm examination will be weighted at 25% of the final grade. The final exam will be weighted at 40%. Only **two** midterm exams will count toward the final grade, ***but all students must take each examination: A missed examination will count as a zero, and will constitute 25% of the final grade.***

There will be no "make up" examinations given. A student who misses an examination for "reasonable and compelling reasons" and has a document to prove his/her case may miss an exam without penalty. In this case, then, all remaining midterm examinations will count toward the final grade. ***Should this situation arise, I must be notified prior to the examination and documentation must be provided..***

The form of the examination will vary, but will generally consist of some true-false questions, a multiple choice section, and the assignment of essay questions of varying lengths. You will be instructed as to the type of the exam prior to the exam date and what materials you will be responsible for in order to take the exam.

Grading Policy: Each examination will be (generally) assigned grade ranges on the following principle: The highest point total in the class will be assigned the equivalent of 100%. The ranges for "A," "B," and so on will then be determined by taking 90%, 80% and so on of that point total. Thus, if the highest point total achieved is 93, this will be set as equivalent to 100%. 90% of 93 is 84, so 84 will be the minimum "A." The minimum "B" will thus be 74 as 74 is 80% of 93. (The minimum point total for the "A" grade will be 80. This is the one general exception to the above.)

You are responsible for maintaining your own grade records. Do not discard your exam papers, but keep them in a reasonably secure place. If there is any seeming discrepancy between your records and mine, the only way this discrepancy can be rectified is if you provide evidence.

The points you receive on each examination are determined by comparing your responses to an objective standard: How well did you both specify all the points necessary for a complete answer and

how well did you explain yourself (yes, language skills are important). If you honestly believe that I assigned you fewer points than I should have (after you compare your responses to the answer guide responses), or if you thought me too generous in assigning points, then please take the time to address this issue during my office hours. **But do not** attempt to wrest an extra point by mere quibbling. If you honestly think I undervalued your response, then be prepared to defend your case.

At the end of the semester, the aggregate point totals are fixed **and there is no remedy** for modifying them at this point. I understand that some of you will experience personal problems over the course of the semester. I shall be as understanding as possible, but please understand that an examination result is based solely on what you provide me on the examination itself. And while there are countless reasons as to why your performance could potentially have been better (and this is **always** the case), I cannot attempt to weigh one individual's reason against another and make adjustments on purely subjective bases.

Papers:

Each student will be required to submit **two, two-page** (no longer) papers over the course of the semester. These papers are to be typed (no exceptions)—double-spaced, 12 point font, one inch margins—and are to be written in decent style, free of spelling and grammatical errors. Each paper is to be based on a specific article assigned from *Real World Macro* (see below). Each paper will be graded on a **5-point** basis, and the aggregate points will constitute **10%** of the final grade.

Grading scheme:

5 points: (a) Paper specifies the main point(s) of the article clearly; (b) demonstrates the significance of the main point(s) in the context of the general argument developed in the main text and the lectures; (c) demonstrates some analytical grasp of the argument; (d) is well written and free of spelling and grammatical errors.

4 points: Satisfies a-d as above, but is written at a lower level of analysis; is less clear in demonstrating the significance of the main point(s).

3 points: Satisfies a, b, d as above (with the caveats specified in the 4 point statement), but displays a weak analytical grasp.

2 points: Weak in regards to a-c, but satisfies d.

1 point: Satisfies no condition as above.

Content: Each submission will first specify the main point of the article in a clear, succinct paragraph or two. Then, this main point will be compared/contrasted to the argument found in the main text (Tucker): does the author of the article complement the text, contradict the text, supplement the text? How so? The paper will conclude with a statement analyzing the article in which the student makes a critical evaluation of the articles strengths and/or weaknesses, using the theory and tools being developed in the class. If you quote or paraphrase either the author of the *RWM* piece or Tucker, simple cite the author and page number in parentheses.

Submission Dates: There are **absolutely no** exceptions to the following dates. Any paper submitted after the specified date will be awarded 0 points. Papers will be returned the following week.

February 25 Article #1, The Growth Consensus Unravels
April 3 Article #18, Is Big Government Really the Problem?

Drop Policy:

Until the first examination, any student may drop the course without a specified reason. From that point, a withdrawal will be granted only if a documented reason consistent with university policy is supplied. A “W” is not to be viewed as a substitute for an “F.”

On Taping:

The **taping of lectures is not permitted** unless special circumstances prevail. Any such taping must be cleared by me, the student must sign a contract and agree to erase all tapes following transcription.

Other Matters:

Lectures will start at the appointed time. Please do not arrive late, nor leave during the lecture (except, of course, for emergencies): such behavior is disruptive. If you systematically arrive late, I shall request your departure from the course.

There is to be no eating or drinking in the class hour. Again, this is disruptive.

Private conversations during the lecture are disruptive as well and will not be tolerated.

Cheating will not be tolerated. Any detected cheating will result in failure of the course and a letter informing the Dean of Students of the action.

Note Well:

This is not an easy course (though it is hoped it will be interesting). It demands study and critical analysis. Do not expect a pass simply because you show up for class: This does not demonstrate that you're learning. I recommend that you organize into small groups and aid each other in learning the material. I shall give you as much time as I can. Talk to me: Do not come in at the end of the semester with some reason as to why you should not fail. At that point, it's too late.

Also, do not use underlining as a technique for studying the textual materials. Rather, take notes on the texts, putting the author's argument into your own words. This will greatly assist your understanding of the material and better prepare you for examinations. **Read ahead of the lecture material and on a regular basis. Do not start your reading assignments two days prior to an examination.**

Essentially, do not attempt to pass this course through merely memorizing the material: you can't do it. Learn to develop your conceptual skills so that the material can be placed in a context that allows

you to analyze a particular issue and reach a considered conclusion on the basis of that analysis. So, attend lectures regularly, take notes (and re-write these the same day while the material is reasonably fresh), organize study groups, work through the workbook and homework carefully and thoughtfully, and work on a regular basis rather than trying to cram a large amount of information into the two days prior to an exam.

Lastly, this course requires a modicum of mathematical (including graphical) skills. No math will be required of you beyond that which you learned in high school. However, if you do not truly understand, say, fractions, percentages, simple algebra, you will have trouble and will probably not pass the course with a satisfactory grade. If you are weak in this area, you must remedy the situation or face the consequences. (N.B. Tucker has appendices that are helpful in this regard. Please consult them.)