

Eric Doviak Class meets: **Mon. 7:20-9:00 in N404**
eric@doviak.net **Wed. 7:20-8:10 (sec. 711) and 8:20-9:10 (sec. 712) in S755**
www.doviak.net Office hours: **before or after class or by appointment**

Principles of Macroeconomics (ECO 201) **Borough of Manhattan Community College – Spring 2010**

Macroeconomics is the study of how economies perform over short and long periods of time. This is an important discipline because the performance of an economy is directly tied to living standards. After all, the more our economy produces, the more we can consume and the higher is our standard of living.

Similarly, if an economy is producing less output this year than it did last year, our consumption in this year will likely be lower than it was last year and the number of unemployed workers will likely be higher than it was last year.

Macroeconomics also examines the impact that government policy can have on the rate of unemployment, the level of output that our economy produces and the prices that we pay for the goods and services that we consume.

Of fundamental importance is the time frame in which we are examining the economy's performance. Many of the government policies which boost our living standards over short periods of time are downright harmful to our living standards over longer periods of time.

This course places a great emphasis on the difference between the short-run and long-run performance of the economy and stresses the tradeoffs that government policymakers face. For example, raising taxes and cutting government spending is political suicide, but one day we will have to pay off the government debt and that will require either tax hikes or cuts in government spending.

Studying such tradeoffs will help you understand the nature of tradeoffs that you face in everyday life.

For example, in the short run, spending time studying economics prevents you from spending time with family and friends. In the long run, time spent studying economics will enable you to make more rational decisions, which will increase your productivity at the office and – hopefully – enable you to get a raise.

Objectives of this Course

This course has two sets of objectives: practical and academic. The practical objectives aim to teach you how to apply mathematics and economics in daily life. The academic objectives (which are listed with the class schedule) aim to teach you basic macroeconomics.

The practical objectives consist of:

- enabling you to interpret graphs and equations, both mathematically and intuitively,
- developing your logical thinking skills,
- teaching you how independent variables affect dependent variables and
- helping you apply the concept of opportunity cost, marginalism and efficient markets in everyday life.

Knowledge of algebra: Algebra is not a prerequisite for this course, but it is a prerequisite for a successful professional career. I will not require you to solve math problems on the exams, but I will require you to understand and interpret the math that is in your textbook. To help you, I will conduct a review of basic algebra during the first few lectures. I strongly encourage you to take advantage of this opportunity.

Course Requirements

Your final grade will be determined by a weighted average of a mid-term exam (35 percent), a final exam (45 percent) and the quality of your class participation (20 percent).

The exams will consist of a section of identifications – in which you will write brief definitions and describe the relevance of key concepts, theories, etc. – and a section of essays.

Homework will be assigned and the solutions will be reviewed in class, but I will not collect them and I will not grade them. If you read the *Lecture Notes* and the textbook do the homework regularly, you will develop a good understanding of the course material and you will score higher on the exams. If you only read the *Lecture Notes* and do the homework the night before the exam, don't expect to pass.

Finally, in evaluating the quality of your class participation, I will consider:

1. your attitude towards the course material,
2. how well you demonstrate an understanding of the required readings and homework assignments and
3. how often you ask intelligent questions in class.

Saying “I don't understand” and explaining what you don't understand and why you don't understand it is one of the most intelligent things you can do. It demonstrates curiosity and interest in the course material. By contrast, sitting in silence when you don't understand is one of the dumbest things you can do.

Attendance Policy

Here's BMCC's attendance policy: At BMCC, the maximum number of absences is limited to one more hour than the number of hours a class meets in one week. For example, you may be enrolled in a four-hour class that meets four times per week. You are allowed 5 hours of absence (not 5 days). In the case of excessive absences, the instructor has the option to lower the grade or assign an F or WU grade.

Here's my attendance policy: Come and go as you please, but keep in mind that the lectures are an important part of the course. If you're not here, it's going to be a lot harder to understand the course material. Poor attendance will also adversely affect my evaluation of your class participation.

For example, if you never come to a single class, but somehow manage to ace both exams (which is highly unlikely), your final grade would be a B-plus – that's 80 percent of an A (4.0).

Exam Make-Up Policy

Any student who is either unable to attend class on the day of the exam or simply doesn't feel like coming to class on the day of the exam, doesn't have to come. There's no need to contact me or explain the reason for your absence. Just don't come.

If you miss the mid-term exam, you will be expected to submit a take-home examination within two weeks of the class immediately following the mid-term exam. No exceptions.

If you miss the final exam, you will have to make it up during departmental exams next semester.

In deciding whether or not to come to class on the day of the exam, keep in mind that I see absolutely no reason why the difficulty of the take-home exam or the departmental exam should be comparable to that of the in-class exam. If I were in your shoes, I would come to class on the day of the exam.

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Instant Replay Rule

If you do not do well on an exam and would like to improve your grade by doing the make-up exam, I'll look very favorably upon your efforts.

For those of you who would like to improve your grade by haggling with me over points, we'll play by the "Instant Replay Rule." If your complaint has merit, I'll fix your grade. If your complaint does not have merit, it will cost you one whole letter grade.

Email at your Own Risk

Any take-home assignment (such as a make-up exam) should be submitted to me during regular class hours. If you cannot attend class that day, ask a friend to submit it for you.

I will also accept assignments submitted to me by email or left in my box at the Economics Dept. Office.

Keep in mind however that email does not always work perfectly. There is a low (but not insignificant) probability that the email will not be delivered to me. There is also a low (but not insignificant) probability that an assignment left in my box will disappear.

I will not be held accountable for vanishing emails. Nor will I be held accountable for assignments devoured by the mailbox gremlin. You assume ALL of the risk associated with email and/or mailbox submissions.

If I don't receive it, it's your problem, not mine.

Policy on Cheating

BMCC's policy: Plagiarism is the presentation of someone else's ideas, words or artistic, scientific, or technical work as one's own creation. Using the idea or work of another is permissible only when the original author is identified. Paraphrasing and summarizing, as well as direct quotations, require citations to the original source. Plagiarism may be intentional or unintentional. Lack of dishonest intent does not necessarily absolve a student of responsibility for plagiarism.

Students who are unsure how and when to provide documentation are advised to consult with their instructors. The library has guides designed to help students to appropriately identify a cited work. The full policy can be found on BMCC's website, www.bmcc.cuny.edu

My policy: Don't even think about it! I will catch you and I will pursue the harshest penalty BMCC allows.

What you should think about is the reputation of your school. If BMCC were to develop a reputation for tolerance of cheating, then potential employers would consider completion of a degree at BMCC to be a trivial accomplishment and your investment of time, money and energy here will have been squandered.

Use of notes during an in-class exam is cheating. Don't do it. Copying material from a website on a take-home exam is cheating. Don't do it.

If you think I won't know if you copied material from a website on a take-home exam, you're wrong.

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What to Expect

I have an easy-going attitude, but don't expect an easy A. I work hard and I expect the same from you.

I'll give you all the help you need, but don't expect me to spoon-feed you the answers. This is college. Come prepared to ask me questions. Don't waste my time.

I don't see things in black and white. I am incapable of answering a question with a simple "yes" or "no." I look for the complexity in an issue and seek to understand it.

If you get impatient with someone who takes their time to answer a question or goes into too much detail, then I'm probably not the professor for you.

On the other hand, if you want to learn how to analyze an issue and come to a well-reasoned conclusion, then you're in the right place.

Course Readings

- Eric Doviak. *Lecture Notes on Economic Growth and Economic Fluctuations*. www.doviak.net
- Robert H. Frank and Ben Bernanke. *Principles of Macroeconomics*. ISBN: 0-073-19397-6
- David W. Pearce (ed.). *The MIT Dictionary of Modern Economics*. ISBN: 0-262-66078-4

My *Lecture Notes* contain a lot of information, but they are not a substitute for a textbook. You need a textbook for depth. I recommend Frank/Bernanke textbook because it covers the material in the *Lecture Notes* in far greater depth than my *Lecture Notes* and more intuitively than other textbooks do.

In the reading assignments below, the letters "FB" denote Frank and Bernanke's textbook.

Part One – Introduction to Macroeconomics

Lecture 1: Introduction and Math Review

read: **FB chap. 1 and appendix** and do: **HWs #1A and #1B**

Lecture 2: The Production Process

- What marginal condition determines a profit-maximizing firm's optimal level of output?
- How does a change in the wage rate affect a cost-minimizing firm's employment of capital and labor?
- How do firms' short-run costs differ from their long-run costs?
- What are increasing, constant and decreasing returns to scale and how do they affect optimal firm size and the number of firms in an industry in the long run?

read: **a chapter on the production process from ANY micro text** and do: **HWs #1C and #2**

Lecture 3: the Distribution and Allocation of National Income

- What is Gross Domestic Product?
 - Why should the Income and Expenditure Approaches to calculating GDP both yield the same sum?
- read: **FB chaps. 4 and 5** and do: **HW #1D**

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Part Two – Economic Growth

Lecture 4: Economic Growth: the Solow Model

- How do saving and growth of the labor force affect the long-run level of output per worker?
- How does technological progress affect the growth rate of the long-run level of output per worker?
read: **FB chap. 7** and do: **HW #4**

Lecture 5: Economic Growth: Beyond the Solow Model

- What is human capital?
- How does human capital investment affect the long-run level of output per worker?
- What factors affect the growth rate of technological progress?
do: **HW #5**

Lecture 6: Economic Growth: Transition Dynamics

- How do government budget deficits affect the national saving rate?
- If a high saving rate leads to a high steady state level of output per worker, then why is saving so unpopular?
read: **FB chap. 9** and do: **HW #6**

Lecture 7: Economic Growth and Income Inequality

- Are higher levels of economic development associated with a greater degree of income inequality?
- How does government policy affect the level of economic development and the degree of inequality?
read: **Doviak “A Contribution to the Theory of Income Inequality”** – <http://www.doviak.net>

Part Three – Unemployment and Inflation in the Long Run

Lecture 8: Supply, Demand and Equilibrium

- What role do prices play in moving markets toward an equilibrium in response to a surplus/shortage?
- What events cause the demand curve to shift? What events cause the supply curve to shift?
- How do the equilibrium price and equilibrium quantity supplied/demanded respond to a shift of the supply curve? How do they respond to a shift of the demand curve?
read: **FB chap. 3** and do: **HW #8**

Lecture 9: Unemployment in the Long Run

- How is the unemployment rate measured?
- Why are there always some people who are unemployed?
- What is the discouraged worker effect? and How does it cause the unemployment rate to present a misleading measure of the true fraction of people who are unemployed?
read: **FB chaps. 5 and 8** and do: **HW #9**

Lecture 10: Money and Inflation in the Long Run

- How does the Federal Reserve control the money supply?
- How does the Federal Reserve affect interest rates in the economy?
- What factors affect the optimal quantity of money that people would like to hold?
- What is the difference between the nominal interest rate and the real interest rate?
- What is inflation? and What causes inflation in the long run?
read: **FB chaps. 6 and 10** and do: **HW #10**

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Part Four – Economic Fluctuations

Lecture 11: Economic Fluctuations: the Goods Market

- Under what conditions would a difference between planned aggregate expenditure and aggregate output occur in the short run?
- How do the levels of taxation and government spending affect the equilibrium quantity of aggregate output produced in the short run?
read: **FB chaps. 12 and 13 and appendices** and do: **HW #11**

Lecture 12: Economic Fluctuations: the Goods and Money Markets

- Under what conditions can the real interest rate deviate from its long-run level in the short run?
- How do changes in the money supply affect equilibrium aggregate output in the short run?
read: **FB chap. 14 and appendix** and do: **HW #12**

Lecture 13: Output and Inflation in the Short Run

- How does the aggregate demand curve fundamentally differ from a market supply curve?
- How do cost shocks increase the price level and reduce aggregate output (causing recession)?
read: **FB chap. 15** and do: **HW #13**

Lecture 14: the Short-Run Tradeoff between Inflation and Unemployment

- Under what conditions can contraction of the money supply increase unemployment in the short run?
- Under what conditions would contraction of the money supply have no effect on unemployment in the short run?
do: **HW #14**