



# McGill

**McGILL UNIVERSITY  
DEPARTMENT OF ECONOMICS**

**ECON 295  
INTRODUCTION TO MACROECONOMIC POLICY<sup>1</sup>  
FALL 2020**

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**Office Location:** LEA 321A  
**Office Hours:** F 09:00 – 14:00  
**Lecture Hours:** TR 14:35 – 15:55 (Section 001), MW 13:05 – 14:25 (Section 002)  
**Lecture Location:** STBIO S3/3 (Section 001), MAASS 217 (Section 002)  
**Teaching Assistant:** Mr Fan Yang ([fan.yang11@mail.mcgill.ca](mailto:fan.yang11@mail.mcgill.ca))  
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**Course Overview:**

This applied macroeconomics course focuses on current and recurrent macroeconomic issues important in understanding the public policy environment in which firms make their decisions. Topics include national accounts; national income determination; economic growth and fluctuations; money, monetary policy and financial markets; international trade and finance.

**Course Pre- and Co-requisite:**

MGCR 293

**Course Restrictions:**

- For BComm students only
- Not open to students who have taken or are taking ECON 209, ECON 330 or ECON 352

**Number of Credits:**

3 credits

**Required Textbook and Materials:**

- Ragan, C. *Macroeconomics, 16<sup>th</sup> Canadian Edition*. Pearson Canada Ltd., 2019.
  - The textbook and MyLab can be purchased, using the instructor code lander44018, at: [www.pearsonmylabandmastering.com/northamerica/students/get-registered/index.html](http://www.pearsonmylabandmastering.com/northamerica/students/get-registered/index.html)

**Correspondence:**

All email correspondence in this class is through McGill email addresses *only*. Any email coming from any other address is treated as spam and is neither read nor answered. If you have not activated your McGill email already, please follow the instructions at [www.mcgill.ca/it/get-started-it/students](http://www.mcgill.ca/it/get-started-it/students).

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<sup>1</sup> In the event of extraordinary circumstances beyond the University's and/or instructor's control, the content and/or evaluation scheme in this course is subject to change. Timely announcements will be made by email and/or on *myCourses*.

**Course Assessment:**

COMPONENT	WEIGHT	CONTENT	DATE
Labs	30 percent	Chapters 19 – 34	Weekly
Midterm 1	20 percent	Chapters 19 – 23	October 13
Midterm 2	20 percent	Chapters 24 – 28	November 16
Final	30 percent	Chapters 19 – 34	TBD

**Grade Criterion:**

Letter	Points	Percent	Letter	Points	Percent	Letter	Points	Percent
A	4.0	85 – 100	B	3.0	70 – 74	C	2.0	55 – 59
A-	3.7	80 – 84	B-	2.7	65 – 69	D	1.0	50 – 54
B+	3.3	75 – 79	C+	2.3	60 – 64	F	0.0	00 – 49

- The official grade in this course is the letter grade. Where appropriate, a class average appears on transcripts expressed as the letter grade most representative of the class performance.
- Consult your department for the minimum grade necessary to fulfill your programme requirements.
- The grade distribution for ECON295 will be approximately normal, centred around 70 percent. If, at the end of the course, the distribution differs significantly, the instructor may exercise discretion and adjust the grade thresholds. This will not serve as grounds for grade appeals.

**Lectures:**

- The international nature of the student body makes it nearly impossible to find a three-hour timeframe in which all students can gather online to attend a live lecture.
- For that reason, lectures are pre-recorded and posted on *myCourses* according to a traditional in-class semester schedule (see *Tentative Lecture Schedule and Assigned Readings* on page 8).
- Lectures last 2 – 3 hours and, with the e-text, contain all the information needed to complete the course.
- Once posted, each lecture is always available (as long as *myCourses* is working) except during exams.

**Office Hours:**

- Office hours are not recorded, optional and take place online F 09:00 – 14:00 Eastern.
- As with traditional on-campus office hours, you are received on a first-come, first-served basis and not by appointment. You sit in a virtual waiting room until I am ready to receive you.
- If you use office hours, you are expected to “arrive” prepared (ie, with your questions ready) and to be efficient so that the maximum number of students can make use of the available time.
- If you are unable to attend office hours because of scheduling conflicts, you can email your questions with attached audio, video and/or pictures. The more precise the information you provide, the faster and more precise I can respond.



### Labs:

- There are sixteen MyLab labs, one for each chapter. These labs are very similar to more traditional, hardcopy assignments that students would submit to instructors. The purposes of the labs are to:
  - (1) Reinforce material covered in class;
  - (2) Teach material for which there is insufficient time in class;
  - (3) Keep students on track with course learning objectives; and,
  - (4) Provide students with immediate evaluation and feedback.
- Each lab is worth two percent (up to a maximum of 30 percent).
- Labs are open at all times but the grade on the FIRST attempt (if it is before the deadline) is the one that is recorded. After that, labs are still available but grades from those attempts do not count.
- Labs are due Sundays at 23:59 Eastern (exact due dates are listed on MyLab). The time is based on MyLab's clock. The best way to avoid missing deadlines is to do the labs ahead of time, not just prior to the deadline.
- You may ask for a 48-hour extension for any ONE of the sixteen labs. No documentation and no reason are required, but you should use the extension opportunity judiciously and not use it without legitimate reason because a second extension will not be provided.
- Each lab consists of some multiple-choice, graphical, numerical and conceptual questions. Evaluation and feedback is provided immediately after submitting answers.
- Some MyLab questions are based on computer algorithms. This means that every time a lab is attempted, some parameters (eg, numbers, wording) of the questions may differ.
- You can access the labs at <http://portal.mypearson.com/mypearson-login.jsp> after you purchase the access code and register in the appropriate section.
- Labs do not have a preset amount of time to finish, but inactivity for extended periods could result in Pearson automatically logging you out.
- Address technical problems and questions directly to Pearson (<https://support.pearson.com/getsupport>).



## Exams:

- There are two midterms written outside of class time (Tuesday, October 13 and Monday, November 16) that cover the first- and second-thirds of the course, respectively, and a cumulative final written during the final exam period. (See *Course Assessment* on page 2 and *Tentative Lecture Schedule and Assigned Readings* on page 8 for more details about the contents and weights.)
- You are ultimately responsible for knowing the date and time of the final exam.
- If you miss a midterm for any reason (eg, illness, technical, religious, work obligation, exam scheduling conflict, etc.), the weight of that midterm is shifted automatically to the final. There are NO MAKEUP, ALTERNATE OR DEFERRED MIDTERMS under any circumstances, nor may they be written early.
- If you miss, or cannot write, the final, you must request a deferred exam according to the process described here ([www.mcgill.ca/exams/dates/supdefer](http://www.mcgill.ca/exams/dates/supdefer)). Final exam accommodations are almost never approved for reasons relating to personal vacation/travel or family events.
- All exams are closed book, non-proctored, multiple-choice exams to be completed on *myCourses*.
- You may use a non-programmable calculator and scrap paper to assist you, but you may NOT use any other additional materials, including but not limited to notes, slides, online or offline materials, external websites, formula sheets, previous exams, dictionaries, your phone/tablet or anything else that would normally fall within the GENERALLY-ACCEPTED definition of cheating. Furthermore, you are to do this exam ON YOUR OWN, without discussing the materials with anybody inside or outside of the class. If you fail to follow any of these instructions, you will receive a grade of zero for the exam and will face academic misconduct proceedings in accordance with McGill's [Code of Student Conduct and Disciplinary Procedures](#). If you are unsure if what you are doing is acceptable, ask first.
- Do NOT underestimate the difficulty of the exams. The style of the exams is to ensure timely feedback; you should not interpret that the exam is easy because it is multiple choice.
- Questions involve algebra, definitions, interpretations and multi-part questions where the answer to one multiple-choice question may lead to another.
- Each exam is available on *myCourses* 08:00 – 12:00 Eastern. You may begin the exam at a time of your choosing in that range, but once you begin, you must complete the 90-minute midterms before 12:00 Eastern. The final is similar but with a 2.5-hour final to be completed in a six-hour window.
- If you require university-approved special accommodations (eg, 30 min/hr extra writing time), you must notify me at least 24 hours prior to 08:00 Eastern on the exam day to receive it. You must factor these accommodations into your decision when to begin the exams.
- The first set of questions in each exam is a series of declarations that you will behave in accordance with the university's policies and procedures on academic integrity.
- After that, you see one multiple-choice question at a time. Questions are randomised so different students will be writing different exams, although the basic coverage is the same for all students.
- During the exam, you are not told whether you have answered the question (in)correctly and you do not see your grade for a few days after the exam closes. When the exam grade is ready, it is posted on *myCourses*.
- It is not possible to review your exams after you complete them. Do not worry though; the final consists of entirely different questions than those that appear on the midterms, so there is nothing to be learned from the exams after you complete them.



## Course Objectives / Learning Outcomes:

### Chapter 19

- Define the key macroeconomic variables: national income, unemployment, productivity, inflation, interest rates, exchange rates and net exports.
- Understand that most macroeconomic issues are about either long-run growth or short-run fluctuations and that government policy is relevant for both.

### Chapter 20

- See how the idea of value added solves the “double counting” problem when measuring national income.
- Explain the income approach and the expenditure approach to measuring national income.
- Explain the difference between real and nominal GDP and understand the GDP deflator.
- Discuss the many important omissions from official measures of GDP.
- Understand why real per capita GDP is a good measure of average material living standards but an incomplete measure of overall wellbeing.

### Chapter 21

- Explain the difference between desired and actual expenditure.
- Identify the determinants of desired consumption and desired investment.
- Understand the meaning of equilibrium national income.
- Explain how a change in desired expenditure affects equilibrium income through the simple multiplier.

### Chapter 22

- Understand how government purchases and tax revenues relate to national income.
- Understand how exports and imports relate to national income.
- Distinguish between the marginal propensity to consume and the marginal propensity to spend.
- Explain why the introduction of government and foreign trade in the macro model reduces the value of the simple multiplier.
- Explain how government can use fiscal policy to influence the level of national income.
- Understand why output is demand determined in our simple macro model.

### Chapter 23

- Explain why an exogenous change in the price level shifts the AE curve and changes the equilibrium level of real GDP.
- Derive the AD curve and understand what causes it to shift.
- Explain the meaning of the AS curve and understand why it shifts when technology or factor prices change.
- Explain how AD and AS shocks affect equilibrium real GDP and the price level.

### Chapter 24

- Describe the three different macroeconomic states and the underlying assumptions for each one.
- Explain why output gaps cause wages and other factor prices to change.
- Describe how changes in factor prices affect firms’ costs and shift the AS curve.
- Explain why real GDP gradually returns to potential output following an AD and AS shock.
- Understand why lags and uncertainty place limitations on the use of fiscal stabilisation policy.



## Chapter 25

- Discuss the costs and benefits of economic growth.
- List four important determinants of growth in potential GDP.
- Explain the main elements of Neoclassical growth theory in which technological change is exogenous.
- Discuss alternative growth theories based on endogenous technical change.
- Explain why resource exhaustion and environmental degradation may create serious challenges for public policy directed at sustaining economic growth.

## Chapter 26

- Describe the various functions of money and how money has evolved over time.
- See that modern banking systems include both privately owned commercial banks and government-owned central banks.
- Explain how commercial banks create money through the process of taking deposits and making loans.
- Describe the various measures of the money supply.

## Chapter 27

- Explain why the price of a bond is inversely related to the market interest rate.
- Describe how the demand for money depends on the interest rate, the price level and real GDP.
- Explain how monetary equilibrium determines the interest rate in the short run.
- Describe the transmission mechanism of monetary policy.
- Understand the difference between the short-run and long-run effects of monetary policy.
- Describe under what conditions monetary policy is most effective in the short run.

## Chapter 28

- Explain why the Bank of Canada chooses to directly target interest rates rather than the money supply.
- Understand why many central banks have adopted formal inflation targets.
- Explain how the Bank of Canada's policy of inflation targeting helps to stabilise the economy.
- Describe why monetary policy affects real GDP and the price level only after long time lags.
- Discuss the main economic challenges that the Bank of Canada has faced over the past three decades.

## Chapter 29

- Understand why wages tend to change in response to both output gaps and inflation expectations.
- Describe how a constant rate of inflation can be incorporated into the basic macroeconomic model.
- Explain how AD and AS shocks affect inflation and real GDP.
- Explain what happens when the Bank of Canada validates demand and supply shocks.
- Understand the three phases of a disinflation.
- Explain how the cost of disinflation can be measured by the sacrifice ratio.

## Chapter 30

- Compare employment and unemployment changes over the short run and long run.
- Describe the difference between market-clearing and non-market-clearing theories of the labour market.
- Discuss the causes of frictional and structural unemployment.
- Explain the various forces that cause the NAIRU to change.
- Discuss policies designed to reduce unemployment.

### Chapter 31

- Explain how the government's annual budget deficit (or surplus) is related to its stock of debt.
- Describe the structural deficit and how it can be used to measure the stance of fiscal policy.
- Understand how budget deficits may crowd out investment and net exports.
- Describe why a high stock of government debt may hamper the conduct of monetary and fiscal policies.
- Explain why legislation requiring balanced budgets may be undesirable.

### Chapter 32

- Explain why the gains from trade depend on the pattern of comparative advantage.
- Understand how factor endowments and climate can influence a country's comparative advantage.
- Describe the law of one price.
- Explain why countries export some goods and import others.

### Chapter 33

- Describe the various situations in which a country may rationally choose to protect some industries.
- Discuss the most common invalid arguments in favour of protection.
- Explain the effects of tariffs and quotas on imported goods.
- Understand why trade-remedy laws are sometimes just thinly disguised protection.
- Distinguish between trade creation and trade diversion.
- Discuss the main features of the North American Free Trade Agreement.

### Chapter 34

- List the components of Canada's balance of payments and explain why the balance of payments must always balance.
- Describe the demand for and supply of foreign exchange.
- Discuss various factors that cause fluctuations in exchange rates.
- Discuss why a current account deficit is not necessarily undesirable.
- Understand the theory of purchasing power parity (PPP) and its limitations.
- Explain how flexible exchange rates can dampen the effects of external shocks.

### **Instructional Method:**

I have been told that my lecture style is fast-paced and intense but engaging and humorous. Although students often find that this style makes the concepts easier to understand, they are often disappointed when they fail to perform to the level to which they are accustomed on my exams. My exams tend to reward those that are sufficiently knowledgeable of the underlying concepts and have developed an intuitive approach to the material. **Memorisation is almost never rewarded.**

To give you the best chance for success in my course, I strongly encourage you stay on schedule as if you were in class, approach the material with a positive attitude, read the relevant materials before (and after) watching the videos, do the assigned homework before advancing to the next chapter, work in a comfortable environment and identify problems and seek help as soon as they occur.

## Tentative Lecture Schedule and Assigned Readings:

DATE	EVENT	COVERAGE
September 3	Introduction	—
September 8	What Macroeconomics Is All About	Chapter 19
September 10	What Macroeconomics Is All About The Measurement of National Income	Chapter 19 Chapter 20
September 15	The Measurement of National Income	Chapter 20
September 17	The Simplest Short-Run Macro Model	Chapter 21
September 22	The Simplest Short-Run Macro Model Adding Government and Trade to the Simple Macro Model	Chapter 21 Chapter 22
September 24	Adding Government and Trade to the Simple Macro Model	Chapter 22
September 29	Output and Prices in the Short Run	Chapter 23
October 1	Output and Prices in the Short Run From Short Run to Long Run: The Adjustment of Factor Prices	Chapter 23 Chapter 24
October 6	From Short Run to Long Run: The Adjustment of Factor Prices	Chapter 24
October 8	Long-Run Economic Growth	Chapter 25
October 13	Long-Run Economic Growth Money and Banking	Chapter 25 Chapter 26
October 13	MIDTERM 1 (08:00 – 12:00)	Chapters 19 – 23
October 15	Money and Banking	Chapter 26
October 20	Money, Interest Rates, and Economic Activity	Chapter 27
October 22	Money, Interest Rates, and Economic Activity Monetary Policy in Canada	Chapter 27 Chapter 28
October 27	Monetary Policy in Canada	Chapter 28
October 29	Inflation and Disinflation	Chapter 29
November 3	Inflation and Disinflation Unemployment Fluctuations and the NAIRU	Chapter 29 Chapter 30
November 5	Unemployment Fluctuations and the NAIRU	Chapter 30
November 10	Government Debt and Deficits	Chapter 31
November 12	Government Debt and Deficits The Gains from International Trade	Chapter 31 Chapter 32
November 16	MIDTERM 2 (08:00 – 12:00)	Chapters 24 – 28
November 17	The Gains from International Trade	Chapter 32
November 19	Trade Policy	Chapter 33
November 24	Trade Policy Exchange Rates and the Balance of Payments	Chapter 33 Chapter 34
November 26	Exchange Rates and the Balance of Payments	Chapter 34
December 1	Review	Chapters 19 – 34

**Language of Submission:**

In accordance with McGill University's [Charter of Students' Rights](#), students in this course have the right to submit in English or in French any written work that is to be graded.

**Academic Integrity:**

McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the [Code of Student Conduct and Disciplinary Procedures](#).

**Text-Matching Software:**

As per McGill University's [Policy on Text-Matching Software](#), this course uses such software. Item 2 of the Policy states, in part, that, "*Students shall also be informed in writing before the end of the drop/add period that they are free, without penalty of grade, to choose an alternative way of attesting to the authenticity of their work. Instructors shall provide students with at least two possible alternatives that are not unduly onerous and that are appropriate for the type of written work.*"

If you prefer an alternative way of attesting to your work's authenticity be used, you may choose to...

- Submit copies of multiple drafts;
- Submit photocopies of sources;
- Take an oral examination directed at issues of originality; or,
- Respond in writing to a quiz or questions directed at issues of originality.

**Student Assessment Policy:**

The [University Student Assessment Policy](#) exists to ensure fair and equitable academic assessment for all students and to protect students from excessive workloads. Students are encouraged to review this Policy, which addresses multiple aspects and methods of student assessment (eg, the timing of evaluation due dates and weighting of final examinations).

**Copyrighted Materials:**

Instructor-generated course materials (eg, handouts, notes, summaries, exam questions, etc.) are protected by law and may not be copied or distributed in any form or in any medium without explicit permission of the instructor. Note that infringements of copyright can be subject to follow up by the University under the [Code of Student Conduct and Disciplinary Procedures](#).

**Inclusive Learning:**

While I endeavor to provide an inclusive learning environment, if you experience barriers to learning in this course, do not hesitate to discuss them with me and/or with the [Office for Students with Disabilities](#).

**End-of-Course Evaluations:**

[End-of-Course Evaluations](#) are one of the ways that McGill works towards maintaining and improving the quality of courses and the student's learning experience. You will be notified by e-mail when the evaluations are available.

**Students' Rights:**

Additional policies governing academic issues that affect students can be found in the [Handbook on Student Rights and Responsibilities](#).