

# Introduction to Macroeconomic Policy

## ECON 295 – Sections 001 and 002

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McGill University  
Fall 2023

### Course description and objectives

This course is designed to introduce you to the basics of macroeconomics, as well as some topics beyond the basics, such as open economy macro, fiscal and monetary policy, and unemployment. Some emphasis will be placed on existing debates in the design and conduct of macroeconomic policy. The following four themes will clearly emerge.

Theme #1: In the short run, most economists agree that there is no guarantee that the economy will arrive at a position of “full employment”. A short run macroeconomic equilibrium with unemployment is entirely feasible.

Theme #2: Due to the first theme, the government has a role – at least in principle – in influencing the level of aggregate economic activity. This is the motivation for “stabilization” policy, using fiscal policy or monetary policy, or both. There is, however, some debate about the effectiveness of various policy instruments.

Theme #3: There is a broad consensus among economists that the economy, over the long run, will approach a position of “full employment”. There is naturally some debate about what the “long run” really means (or, in other words, how quickly we get there).

Theme #4: There is a broad consensus that one of the key determinants of average living standards is the amount of income per capita. There is also a consensus that an important determinant of per capita income is the level of productivity. Unfortunately, there is also a consensus that we do not know as much as we would like to know about what causes productivity improvements. There is also debate about whether government policy is able to influence the rate of growth of productivity.

To be able to address these topics, we will begin by carefully developing and studying a model of the macroeconomy in the first part of the course. After that, we will use the model for a variety of applications, like fiscal and monetary policy.

**Study Hints:** I strongly recommend that you keep up with the readings as the lectures progress – don’t leave them until exam time, it is very easy to fall behind, and difficult to catch up when you do. Economic reasoning builds upon itself, so you need to understand each part as we go along. Lectures and conferences are very important. Lecture notes will be posted on the MyCourses web site.

**Math requirements:** A working knowledge of arithmetic and a small amount of basic algebra should be enough.

## Administrative Issues and Course Structure

3 credits, 2 lectures per week

**Restrictions:** This course is not open for credit to students who have taken or are taking Econ209, Econ330 or Econ352.

### Contact:

course email: econ295fall2023@gmail.com

my email: mayssun.el-attarvilalta@mcgill.ca

office hours: Thus from 3:00pm to 4:00pm in Leacock 426.

For any matter related to the course, write to the course email.

### Text and learning tools:

- The **textbook** for this course is the *Macroeconomics* (17th Canadian Edition) by C. Ragan, published by Pearson Education Canada.
- The text comes with access to an online site **MyEconLab**, at [www.myeconlab.com](http://www.myeconlab.com), where you will find (i) explanations for a selection of end-of-chapter text exercises/questions, (ii) some short practice quizzes, (iii) sections on the Additional Topics referred to in the text, and more. When using **MyEconLab** you will be asked for the course name ('Econ 295: Introduction to Macroeconomic Policy (Fall 2023)') and Course ID (el-attar40863).
- There will also be some readings supplementary to the textbook. I will also assign several of the Additional Topics that have been written to accompany this textbook. These will be made available electronically (on mycourses) at the appropriate time.

In addition, continuous class attendance is strongly encouraged – be it at the time of class or by watching the recordings. Any points raised in class can end up in the examinations.

**MyCourses:** You should regularly check the **myCourses** page for announcements, up-to-date information, additional readings, conference topics, and other items to assist you in the course. Through this web page you will also be able to ask questions and receive answers from your fellow students in the course.

**TA support:** TAs will hold weekly office hours. In these sessions, they will be available to answer your questions, help you to review the course material, and help you solve problems and exercises. Two types of office hours:

- In person: times and location will be posted on *mycourses*.
- Via zoom: On mycourses, you will find a Doodle link that will allow you to sign up for a slot. You can then reach the office hours via a Zoom link that you will find on mycourses. You will be in the waiting room until your time slot has come. If not all slots have been taken at 9pm of the evening preceding a session of office hours, you are welcome to sign up for an additional slot if needed. If there are no free slots, please email the course email: [econ295fall12023@gmail.com](mailto:econ295fall12023@gmail.com).
- Answering questions by email: For any questions about the course, email [econ295fall12023@gmail.com](mailto:econ295fall12023@gmail.com). The TAs and I will be answering questions sent to this email address.

**Grading:** There will be one midterm exam, worth 25% of the course grade, one article discussion, worth 25% of the course grade and a final exam in December (scheduled by McGill), which will be worth 50% of your course grade. The midterm and the final exams are in person. The article discussion is a take-home exam.

The **midterm exam** will take place **in class** at the specified date (see below) during class time. The exam will contain multiple choice questions and some exercises. There will be no lecture that day. The midterm exam will be closed book and you will have 80 minutes (lecture time) to complete and submit the exam.

The **article discussion** will take place **in class** at the specified date (see below) during class time. In this assignment, you will be presented with a news article, and a specific questions will be asked regarding the article. There will be no lecture that day. The assignment will be closed book and you will have 80 minutes (lecture time) to complete and submit the exam.

The **final exam** will be held in person. It will be a 3-hour exam and will take place in December, at the date specified by McGill. The exam will contain: multiple choice questions, exercises and the discussion of a news article.

Anticipated dates for the exams:

- Midterm exam on Tuesday October 17th (during class time)
- Article discussion on Thursday November 16th (during class time).

**Missed tests:** If you miss the midterm, for justifiable reasons, the weight of the missed test will be added to the final exam. For this, you need to email me a justification, with proof, within one week of the test.

Please note that the option of transferring the grade to the final is applicable ONLY if you miss the midterm for justifiable reasons as determined by me ('the instructor') and subject to written confirmation deemed acceptable by me. If you miss one of the tests without my approval you get a mark of zero for it.

Under no circumstances will you be allowed to present additional work to increase your grade in the course.

If you have any concerns regarding grading please get in touch with me. Mistakes in tallying scores would be corrected immediately. If you have other concerns about grading, please let me know. In such a case you must submit your entire exam for a regrade. Requests to regrade specific questions only will not be entertained.

**Supplemental and deferred exam:** There will be a supplemental exam (worth 100% of the course grade) and a deferred exam (same weight as the final exam) for the course. The format and coverage of both these exams will be like those of the final exam.

In case of absence at the final exam for medical reasons, please refer to the University Regulations Concerning Final Examinations. Note: According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the Calendar, section 4.7.2.1, General University Information and Regulations at [www.mcgill.ca](http://www.mcgill.ca). Also note: In accord 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. Finally: In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.

**Academic Integrity:** Cheating is bad, everywhere and always. It is your responsibility to understand what is meant by “cheating” at McGill, and thus what behaviour is unacceptable. I am required to have the following statement on the course outline, in both official languages:

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 (see <http://www.mcgill.ca/integrity/> for more information).

L’université McGill attache une haute importance à l’honnêteté académique. Il incombe par conséquent à tous les étudiants de comprendre ce que l’on entend par tricherie, plagiat et autres infractions académiques, ainsi que les conséquences que peuvent avoir de telles actions, selon le Code de conduite de l’étudiant et des procédures disciplinaires (pour de plus amples renseignements, veuillez consulter le site <http://www.mcgill.ca/integrity/>).

## Course Outline

Due to time constraints, it is possible that some topics will not be covered or some topics added. I maintain discretion regarding changes in this outline. Any changes will be announced in class and/or on *mycourses*.

### Section 1: Introduction to Macroeconomic Issues

Topics Include:

- What macroeconomics is about (chapter 4).
- The measurement of national income (chapter 5).

Additional Topics:

- What makes people happy?

### Section 2: The Real Economy in the Short Run

Topics Include:

- The simplest short-run macro model (chapter 6).
- Adding government and trade to the simple macro model (chapter 7 and Appendix).
- Output and prices in the short-run (chapter 8).

Additional Topics:

- Investment, Saving and Equilibrium GDP
- The Saving-Investment Approach to Equilibrium in an Open Economy with Government
- What Is the Balanced Budget Multiplier?

### Section 3: Productivity and Long-Run Economic Growth

Topics Include:

- The concept of potential output (chapter 9)
- The adjustment of factor prices: the output gap and the importance of wage “stickiness” (chapter 9)
- Long-run economic growth (chapter 10)
- The basics of growth accounting (chapter 10)

Additional Topics:

- Investment and Saving in Globalized Financial Markets
- The Economic and Fiscal Challenges of Population Aging

## **Section 4: Money, Monetary Policy and Inflation**

Topics Include:

- The nature of money; central and commercial banks (chapter 11)
- Money, interest rates and economic activity (chapter 12)
- The transmission mechanism of monetary policy (chapter 13)
- The costs of inflation; the benefits of low inflation (chapter 14)

Additional Topics:

- The U.S. Housing Collapse and the Financial Crisis of 2007-2008
- Interest Rates and the Slope of the AD Curve
- Can inflation be too low?
- Monetary Policy and the Exchange Rate in Canada
- The Costs of High Inflation

## **Section 5: Labour Markets and Unemployment**

Topics Include:

- Cyclical v. frictional/structural unemployment (chapter 15)
- Flows versus stocks in the labour market (chapter 15)
- The determinants of NAIRU (chapter 15)
- Turnover and labour market flexibility (chapter 15)

## **Section 6: Government debt and deficits**

Topics Include:

- The government budget constraint: primary versus actual deficits (chapter 16)
- The dynamics of the debt to GDP ratio (chapter 16)
- The long term burden of government debt (chapter 16)

Additional Topics:

- Budget Deficits and National Saving
- What Caused the Build-Up of Canada's Public Debt?

## **Section 7: International Trade**

Topics Include:

- The gains from international trade (chapter 17)
- Trade Policy (chapter 18)
- Exchange Rates and the Balance of Payments (chapter 19)

Note: In the event of extraordinary circumstances beyond the University's control, the content and/or evaluation scheme in this course is subject to change.