Course description and objectives

This course is designed to introduce you to the basics of macroeconomics, as well as some beyond the basics topics 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.

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 get 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

3 credits
2 lectures per week, Tue and Thus 4:05pm-5:25pm in MCMED 522

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

Contact:
course email: classecon295.2020@gmail.com
my email: mayssun.el-attarvilalta@mcgill.ca
office hours: Thursday 11:00-12:00pm in Leacock 320.

Text and learning tools:

• The textbook for this course is the macroeconomics half of Economics (16th Canadian Edition) by C. Ragan, published by Pearson Education Canada. You can also purchase the macro half separately, Macroeconomics (same author, same publisher). Both are available at Paragraphe bookstore on McGill College Avenue.

• The text comes with access to an online site MyEconLab, at 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 208 Fall 2020 Section 1’) and Course ID (el-attar08813).

• You may find the associated Study Guide (by Dickinson & Indart, 14th edition) useful; working through this study guide will considerably help your understanding of the material. It contains useful study hints and lots of practice questions and answers (with explanations). It includes multiple-choice questions, short-answer questions and longer exercises to help understand the material. Note that the page numbers and chapter numbers do not necessarily mirror those of the texts 16th edition. You can find the Study Guide on reserve in the library.

• 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 the course’s mycourses page) at the appropriate time.

In addition, continuous class attendance is strongly encouraged. Any points raised in class can end up in the examinations.
Tutorials and Office Hours hold by TAs:  TAs will hold weekly tutorials and office hours. In these sessions, they will be available to answer your questions, help you to review the course material, and to help you solve problems and exercises. I strongly advise you to attend. There will be several tutorial sessions of one hour every week. You do not need to register for these tutorials. The purpose of the tutorials is to go over practical exercises and discussion questions. The TAs will also be prepared to address other material from class or from the textbook. The TAs will also hold office hours every week.

Tutorials and office hours will start in the third week of classes (January 21st). The schedule with the locations will be posted on MyCourses.

Answering questions by email:  For any questions about the course, email classecon295.2020@gmail.com. The TAs will be answering questions sent to this email address.

Grading:  There will be two (optional) mid-term exams in this course, plus one (mandatory) final exam in April. The mid-term exams are optional, but once written they will contribute to your final grade. Each midterm will be worth 20% of your course grade, and a 3-hour final scheduled by the Faculty of Arts in April will be worth 55% of your course grade. The final exam will cover the entire course. If you do not take a midterm, its weight will be added to that of the final exam. Regardless of the reason for not completing the midterm there will be no deferred midterm.

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

Anticipated dates & times for the midterms:

- Midterm #1: Thursday February 27. Location: In class. Format: Multiple Choice. Work Mode: Individual.

Midterm #2: In this team assignment, you will be expected to make a rigorous economic analysis of a current issue. You will be presented with a situation inspired by current events. Specific questions will be asked regarding this situation. You must answer the questions by writing a short text in the format of an “Opinion Letter”. Your answers should use the economic concepts seen in class.

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. 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.

**Take-Home Quizzes:** To encourage you to keep up with the material covered in class, I will periodically post quizzes on MyCourses. In each case, you will have a few days or a weekend to complete the quiz.
The quizzes will contain different types of questions, which will all be related to topics seen in previous classes, to additional readings or to questions arising during class. The points obtained on these quizzes will account for 5% of your final grade.
It is strictly forbidden to participate using someone else’s account. If you are discovered doing this, then both you and the other person will receive an F. If you see a classmate doing this, please bring it to my attention immediately.

**Contacting me:** If you have questions about the course or the material, I recommend that you first contact the course email address (econ295.2019@gmail.com). You will receive quicker replies through this address.
If needed, you can also contact me directly at my email address above. While I try to respond to emails sooner or later, the average time for me to respond is about five working days (i.e., excluding holidays). But there is no guarantee that I will respond to all emails: I usually do not respond to emails with questions that should have been asked in the class or in the conferences (especially if other students in the class can also benefit from the questions and the answers) and questions related to info which is already on myCourses. I especially do not respond to emails about the info that is in the syllabus.

**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.

**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/students/srr/honest/](http://www.mcgill.ca/students/srr/honest/) 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/students/srr/honest/](http://www.mcgill.ca/students/srr/honest/)).
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 19).
- The measurement of national income (chapter 20).

Readings:
- Additional Topics: “What makes people happy” and “Growth in Canada and other G7 countries”.
- Statistics Canada has some nice videos on inflation and GDP
- We may also discuss articles on recent changes in GDP measurement and global growth.

Section 2: The Real Economy in the Short Run
Topics Include:

- The simplest short-run macro model (chapter 21).
- Adding government and trade to the simple macro model (chapter 22 and Appendix).
- Output and prices in the short-run (chapter 23).

Readings:
- Additional Topics: “The Consumption Function in Canada”, “Investment, Saving and Equilibrium GDP” and “Oil prices and the Canadian Economy”.
- Other articles:
  - Olivier Blanchard on uncertainty and self-fulfilling prophecies: http://www.economist.com/node/13021961
  - A summary of the IMF’s evolving views about the government spending multiplier and the effects of austerity: http://www.bloombergview.com/articles/2013-01-04/imf-officials-we-were-wrong-about-austerity
Section 3: Productivity and Long-Run Economic Growth

Topics Include:

- The concept of potential output (chapter 24).
- The adjustment of factor prices: the output gap and the importance of wage “stickiness” (chapter 24)
- Short-run versus long-run macro relationships (chapter 24).
- The basics of growth accounting (chapter 25)
- Long-run economic growth (chapter 25).

Readings:

- Additional Topics: “Understanding and Addressing Canada’s Productivity Challenges”
- A decomposition of GDP and comparison to the US similar to what we do in class, from Statistics Canada: http://www.statcan.gc.ca/pub/15-206-x/15-206-x2014038-eng.htm#a7

Section 4: Money, Monetary Policy and Inflation

Topics Include:

- The nature of money; central and commercial banks (chapter 26)
- Money, interest rates and economic activity (chapter 27)
- The transmission mechanism of monetary policy (chapter 28)
- The costs of inflation; the benefits of low inflation (chapter 29)

Readings:

- Additional topics: “The costs of high inflation”
- The Atlantic attempts to evaluate Ben Bernanke’s performance as Fed Chair:
- We will also compare recent monetary policy in the US and Europe.
Section 5: Labour Markets and Unemployment

Topics Include:

- Cyclical v. frictional/structural unemployment (chapter 30)
- Flows versus stocks in the labour market (chapter 30)
- The determinants of NAIRU (chapter 30)
- Turnover and labour market flexibility (chapter 30)

Readings:
- Additional Topic: “Understanding the Canada-U.S. Unemployment Gap”
- Video on Yellen’s speech, on what constitutes full employment (Dec 7, 2015): http://www.cnbc.com/2015/12/03/feds-yellen-reaffirms-us-economic-outlook.html

Section 6: Government debt and deficits

Topics Include:

- The government budget constraint: primary versus actual deficits (chapter 31)
- The dynamics of the debt to GDP ratio (chapter 31)
- The long term burden of government debt (chapter 31)

Readings:
- Additional topics: “What Caused the Build-Up of Canadas Public Debt?” and “Budget deficits and National Saving”
- See the Financial Times interactive tool that shows how a country’s debt/GDP ratio rises and falls as a function of a variety of factors: http://www.ft.com/ig/sites/2014/debt-to-gdp-ratio/#esp