

Introduction to Macroeconomic Policy

ECON 295

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McGill University
Winter 2021

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 10:05am-11:25am, via Zoom. You will find the Zoom link on mycourses.

Note: All times refer to the Montreal time zone.

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

Contact:

course email: e295winter2021@outlook.com

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

office hours: via Zoom, times posted on mycourses.

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

Course delivery: Lectures will be delivered live on Tuesdays and Thursdays, 10:05am-11:25am. Each lecture will be recorded and will be uploaded afterwards to mycourses. Thus, each student who cannot attend the live lecture can watch the recording later on mycourses.

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.
- 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 295 Winter 2021 Section 1') and Course ID (el-attar61348).
- 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.
- Lecture recordings will be posted on *mycourses*.

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.

Office Hours: 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. 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: e295winter2021@outlook.com.

Answering questions by email: For any questions about the course, email e295winter2021@outlook.com. The TAs and I will be answering questions sent to this email address.

Lecture Recordings: By enrolling in this course, you accept that lectures will be recorded. When attending a lecture “live”, your image, voice, and your name (or preferred name) may be recorded, and your instructor may call your name during the lecture. As such, this personal information will be disclosed to classmates, whether during the lecture or in viewing the recording. By attending a lecture “live”, you consent to being recorded and you accept that personal information of this kind may be disclosed to others, whether during the lecture or when viewing the recording. If you are not comfortable being in a lecture that is recorded, you may decide to not attend “live”. Students who do not attend the live lecture are able to watch the video recording of the lecture later in *mycourses*.

Grading: There will be two midterms each worth 15% of your course grade, 1 opinion letter worth 15% of your course grade, 1 open question exercise worth 15% of your course grade, and a final exam in April (scheduled by McGill), which will be worth 40% of your course grade.

The **midterm exams** will be made available through mycourses at the specified dates (see below) at 9am. You then have 24 hours to log into mycourses and open the exam. Once the exam has been opened, you will have 1 hour to complete the exam. There will be no lecture those days. The midterm exams will be take-home exams, which follow the open-book format. That means that during the exam you will be allowed to consult resources as specified by the instructor, however you are not allowed to communicate with other people about any aspect of the exam.

The **opinion letter** will be a team assignment (2 students per group). In this assignment, your team will be presented with a situation inspired by current events, and a specific question will be asked regarding this situation. You will have to answer the question by writing a short text (300 words, + or - 30 words will be accepted) in the form of an “opinion letter”. Your answer should use the economic concepts seen in class. You will not be able to add tables, graphics or images. You must take a clear and unequivocal stand and give detailed explanations of the main arguments and counter-arguments that justify the chosen position. The question will be made available on MyCourses at the specified date (see below) at 9am. You will then have 24 hours to submit your answer. An example of an opinion letter will be posted on MyCourses.

The **open question exercise** will be a team assignment (2 students per group). In this assignment, your team will be presented with an exercise that you will have to solve using

the concepts seen in class. For this exercise you will be required to use a basic amount of calculus, work with graphs and justify well your answers. The exercise will be made available on MyCourses at the specified date (see below) at 9am. You will then have 24 hours to submit your answer. An example of an open question exercise (with solutions) will be posted on MyCourses.

The **final exam** will be made available through mycourses in April at the date specified by McGill. On that date, you will have 24 hours to log into mycourses and open the exam. Once the exam has been opened, you will have 2 hours to complete the exam. The final exam will be a take-home exam, which follows the open-book format. That means that during the exam you will be allowed to consult resources as specified by the instructor, however you are not allowed to communicate with other people about any aspect of the exam.

Missed tests: If you must miss the midterms, the opinion letter or the open question exercise for justifiable reasons, the weight of the missed test will be distributed among the other components of the evaluation. For this, you need to email me a justification, with proof, within one week of the test. Please note that the option of distributing the grade 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.

Regrading: 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.

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.

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

There will be a supplemental exam 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.

Anticipated dates for the tests (note that on these dates the live class will be cancelled):

- Midterm 1: Thursday, February 4 (from 9am).
- Opinion letter: Tuesday, February 16 (from 9am).
- Midterm 2: Tuesday, March 23 (from 9am).
- Open question exercise: Thursday, April 1 (from 9am).

Your electronic submission of the exams and quizzes certifies that you have not, nor will you, consult with any other person about the exam, or any other subject related to it. Students who consult will be subject to disciplinary action as per the Student Code of Conduct.

Contacting me: While I try to respond to emails sooner or later, I cannot respond immediately. I will not respond to certain emails: I usually do not respond to emails with questions that should have been asked in office hours (especially if other students in the class can also benefit from the questions and the answers) and questions related to information which is already on myCourses. I especially do not respond to emails about the information that is in the syllabus.

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.

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/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 19).
- The measurement of national income (chapter 20).

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).

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).

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)

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)

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)