

**MACROECONOMIC THEORY III**  
**ECO 3152 B**  
**PROFESSOR KARNIZOVA**  
**FALL 2014**

<b>Course schedule:</b>	Monday, 8:30-10:00 and Thursday, 10:00-11:30
<b>Course location:</b>	Simard Hall (SMD) 224
<b>Office:</b>	Faculty of Social Sciences (FSS) building 9053
<b>Office hours:</b>	Monday, 13:30-15:30 or by appointment <b>Extra hours before the midterms:</b> 14:00-16:00, October 1 <sup>th</sup> and November 5 <sup>th</sup>
<b>Telephone:</b>	(613) 562-5800 ext.2017
<b>E-mail:</b>	Use the mail option on Blackboard Learn
<b>Teaching assistant:</b>	Roshanak Azarafshar

---

### **OFFICIAL COURSE DESCRIPTION**

Foundations of macroeconomic theory. Business cycle theories. Monetary and fiscal policies in a closed economy. Neoclassical and other modern growth theories.

### **COURSE OBJECTIVES and LEARNING OUTCOMES**

(1) Apply *microeconomic* principles of optimization to analyze behaviour of rational agents in *macroeconomic* models.

By the end of the course, students should be able to

- Explain assumptions imposed on preferences of consumers and on production functions of firms; illustrate these assumptions graphically; provide their economic interpretation and justification; verify whether or not the assumptions are satisfied for specific functional forms;
- Define objectives and specify constraints of economic agents in static and dynamic macroeconomic models;
- Derive conditions that characterize optimal choice of economic agents, using graphical and mathematical techniques;
- Provide intuitive interpretations of objectives, constraints and optimality conditions that characterize decisions of economic agents in macroeconomic models;
- Derive demand and supply functions in a macroeconomic model analytically in general cases and for specific functional forms;
- Represent demand and supply curves graphically, and explain the determinants of their slopes in relation to the assumptions imposed on preferences and production functions;
- Determine how demand and supply functions and curves change in response to changes in exogenous variables;

(2) Master the concept of a *competitive equilibrium* in macroeconomic models.

By the end of the course, students should be able to

- Understand two integral parts of a competitive equilibrium: optimizing behaviour of price-taking rational economic agents and market clearing in all markets of the model;
- Define, rigorously, all variables and conditions that constitute a competitive equilibrium in a macroeconomic model;
- Derive and represent a competitive equilibrium graphically and analytically;
- Interpret equilibrium conditions;
- Analyze how the equilibrium changes in response to changes in exogenous variables, using graphical and analytical techniques;
- Explain economic mechanisms that determine equilibrium responses.

(3) Identify possible sources of business cycles, and evaluate their relative importance using modern macroeconomic models.

By the end of the course, students should be able to

- Define business cycles;
- Describe a set of key business cycle facts concerning comovements in Canadian macroeconomic data;
- Determine which types of exogenous shocks can be analyzed in a given macroeconomic model (technology shocks, changes in fiscal or monetary policies, animal spirits, etc.)
- Establish business cycle facts concerning comovements of macroeconomic variables, following a specific type of shocks, in a given macroeconomic model;
- Compare and contrast predictions of theoretical models with empirical facts concerning comovements in Canadian macroeconomic data;
- Compare and contrast strengths and weaknesses of several modern macroeconomic theories by examining their ability to explain macroeconomic data.

(4) Analyze the roles of monetary and fiscal policies in a closed economy.

By the end of the course, students should be able to

- Explain how to incorporate fiscal and monetary policies into a macroeconomic model;
- Determine how policy changes affect the equilibrium of a model;
- Identify the conditions under which the government intervention is welfare enhancing (or socially beneficial), and the conditions under which such intervention leads to no changes in aggregate economic activity or even decreases welfare;
- Show that temporary and permanent changes in fiscal and monetary policies have different impact on economic activity, and explain why this is the case;
- Establish that anticipated and unanticipated changes in government policies have different impact on economic activity, and explain why this is the case.

## COURSE ORGANIZATION

The course design is oriented around active student learning, rather than traditional lecturing. **Students are expected to be familiar with the assigned textbook readings before coming to class.** In-class time will be used to allow students to master the acquired concepts and theories by working through specific examples and practical applications. In-class discussions of supplementary materials will further deepen students' understanding of the course content.

## EVALUATION

The course evaluation is based on two midterms and a final exam as follows:

Best of the two midterms:	30%
Worst of the two midterms	25%
Final Exam	45%

*The midterm exams* are tentatively scheduled for *October 2<sup>nd</sup>* and *November 6<sup>th</sup>*, 2014. *The final exam* will be *cumulative*. It will take place during the examination period in December on the date assigned by the University.

### Bonus marks

Students can obtain 10% *bonus* marks through *actively participating* in the course throughout the semester. If the bonus marks are granted, the weights of the worse midterm and the final exams will be reduced to 20% and 40%. The bonus marks can be obtained through in-class participation using a web-based interactive system *Lecture Tools*. The use of Lecture Tools requires mobile devices (laptops, notebooks, tablets, smartphones or cellphones). Please advise me as soon as possible if you do not have access to such technology. To obtain the 10% bonus points, a student must participate in the Lecture Tools activities during **at least ten classes**.

### Remarking

- Any request for remarking of exams must be submitted ***in writing within a week*** of that exam being received by the student. The request should contain a detailed explanation of the grading revision requested. Remarking will apply to the entire exam, not just the contentious question. As a result, a grade may increase, decrease or remain the same.
- Students are allowed to hand in their work written in pen or pencil. However, exams written in pencil ***will not*** be re-graded.

## ACCESS SERVICES

The University policy provides equal access to all students. Students requiring accommodations are kindly asked to register, as soon as possible, with Access Service: DMS 3172, tel. 613-562-5976, [www.sass.uottawa.ca/en/access](http://www.sass.uottawa.ca/en/access); [adapt@uOttawa.ca](mailto:adapt@uOttawa.ca).

## COMMUNICATION POLICY

- All written communication for the course will take place through the BlackBoard mail option. Students are expected to consult the course website regularly to keep up with any course announcements.
- Students are strongly encouraged to communicate to the Professor any concerns they may have with regard to the course as early as possible. Any feedback that would enhance students' learning experience with the course is welcome.

## COURSE OUTLINE

### Textbook and Readings

The required textbook for this course is Stephen D. Williamson (2013) *Macroeconomics*, Fourth Canadian Edition, Pearson Canada Inc. The textbook is available at the University of Ottawa bookstore and Agora bookstore. Due to substantial revisions in the textbook, its earlier editions are not acceptable.

This list of topics covered in the course is listed with the required readings from Williamson's book. A number of supplementary readings will be provided through the BlackBoard Learn.

## Topics

1. Introduction and Measurement Issues  
Chapters 1 and 3. Note: while students are expected to know the main measurement concepts from the previous courses, optional Chapter 2 provides an excellent overview.
2. Closed-Economy One-Period Models of the Macroeconomy
  - a. Consumer and behaviour: the work-leisure decision and profit maximization (Chapter 4)
  - b. Competitive equilibrium; effects of a change in government purchases and total factor productivity (Chapter 5)
  - c. Pareto optimality (Chapter 5)
3. Savings, Investment and Government Deficits
  - a. A two-period model: the consumption-savings decision and credit markets (Chapter 9)
  - b. The Ricardian Equivalence Theorem (Chapter 9)
  - c. Credit frictions and financial crises (Chapter 10)
  - d. Social security (Chapter 10), *if time permits*
  - e. A real intertemporal model with investment and its implications (Chapter 11)
4. Money and Business Cycles
  - a. Business Cycle Facts (Chapter 3 - review)
  - b. A monetary intertemporal model: money, banking, prices and monetary policy (Chapter 12)
  - c. Business cycle models with flexible prices and wages
    - i. The real business cycle model (Chapter 13)
    - ii. A Keynesian coordination failure model (Chapter 13)
    - iii. A new monetarist model (Chapter 13)
5. Economic growth (Chapters 7 and 8), *if time permits*

## TIPS FOR BEING SUCCESSFUL IN THE COURSE

- Read the assigned materials before coming to class.
- Prepare short answers to the suggested review questions. Use these questions as indicators of the importance of the material. Some of the questions will reappear on the exams.
- Work through the suggested problems. The only way to understand the theory is by doing it!
- Find a study partner.
- Ask questions! Use all resources available to you: your classmates, course TA and Professor.
- Keep up with the course, as each topic builds upon the previous ones.

### **Absence from an examination or late submission of an assignment**

Absence from any examination or test, or late submission of assignments due to illness, must be justified; otherwise, a penalty will be imposed. The Faculty reserves the right to accept or reject the reason offered. Reasons such as travel, employment, and misreading the examination schedule are not usually accepted.

### ***Beware of Academic Fraud!***

Academic fraud is an act committed by a student to distort the marking of assignments, tests, examinations, and other forms of academic evaluation. Academic fraud is neither accepted nor tolerated by the University. Anyone found guilty of academic fraud is liable to severe academic sanctions.

Here are a few examples of academic fraud:

- engaging in any form of plagiarism or cheating;
- presenting falsified research data;
- handing in an assignment that was not authored, in whole or in part, by the student;
- submitting the same assignment in more than one course, without the written consent of the professors concerned.

In recent years, the development of the Internet has made it much easier to identify academic plagiarism. The tools available to your professors allow them to trace the exact origin of a text on the Web, using just a few words.

In cases where students are unsure whether they are at fault, it is their responsibility to consult the University's Web site at the following address: [http://www.socialsciences.uottawa.ca/eng/writing\\_tools.asp](http://www.socialsciences.uottawa.ca/eng/writing_tools.asp) « *Tools for Writing Papers and Assignments* ».

Persons who have committed or attempted to commit (or have been accomplices to) academic fraud will be penalized. Here are some examples of the academic sanctions, which can be imposed:

- a grade of « F » for the assignment or course in question;
- an additional program requirement of between 3 and 30 credits;
- suspension or expulsion from the Faculty.

Last session, most of the students found guilty of fraud were given an « F » for the course and had between three and twelve credits added to their program requirement.

For more information, refer to:

[http://www.uottawa.ca/academic/info/newsletter/fraud\\_e.html](http://www.uottawa.ca/academic/info/newsletter/fraud_e.html)