

BSE 2211
PRINCIPLES OF MACROECONOMICS
Summer, 2009
Mini-Term
MWThF
12:30 – 3:30 PM
Reading Guide

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Required text: Campbell R. McConnell and Stanley L. Brue, *Macroeconomics Principles, Problems, and Policies*, Seventeenth edition, New York, McGraw-Hill, 2008.

Principles of Macroeconomics

BSE 2211 provides an introduction to basic economic principles and concepts, with a focus on macroeconomics. *Economics* is a social science which studies how scarce productive resources are allocated in order to satisfy unlimited wants, over time.

The basic methodology used in the study of Economics is the *scientific method*. Problems are solved by collecting data, building models, and testing hypotheses. This process may also be referred to as economic analysis, or *model-building*, and it involves the breaking-down of problems into their component parts.

The model-building process also requires the simulation of laboratory conditions. In the social sciences this means the assumption of "other things equal" or *ceteris paribus*. Economic model-building based on the assumption of *ceteris paribus* allows for the analysis of problems using only specific variables. This analysis becomes the basis of prediction. Then the formulation of specific policy recommendations to help to solve the problem becomes possible.

Economics is a discipline which makes assumptions about human behavior. For example, a given amount of information is available to consumers at any give time. Equipped with this information, consumers are assumed to be rational decision-makers as they chose goods and services based on the satisfaction of wants and needs.

Both consumers and business firms must make decisions within given constraints. For consumers, these constraints include the prices of goods and income. Business firms face constraints such as the availability of productive resources (e.g., labor and capital) and the state of technology. Consumers and business firms are thought to maximize utility and profits, respectively, within these constraints. Economic analysis, therefore, deals with *constrained optimization problems*.

An economic system has given geographical boundaries, and is also known as a *national economy*. A national economy is endowed with a given amount of productive resources which are combined within a given state of technology in order to produce goods and services. A model of *production-possibilities* is used to portray the various production choices available, and *economic efficiency* implies full employment (full utilization) of productive resources.

The process of *exchange* is essential to any social system. In the study of Economics, exchange takes place within the social organization known as the *economic system*. Economic systems must have some method of allocating resources, and of producing and consuming good and services. The three most common methods to accomplish these tasks are the systems of the *Market, Command, and Tradition*.

Our analysis will focus on the *market* serving as the method for resource allocation, and the most important tool of economic analysis in the study of *exchange*. The most basic type of market is based on barter, where goods exchange for other goods. However, where goods exchange for money, and money then exchanges for other goods, is required for a nation with "a money based market" to sustain growth and development.

Markets have two basic components: *supply* and *demand*. When these two forces are brought together we are able to determine the amount of goods or services *exchanged*, and the *price* at which the exchange takes place.

When we study how markets function in the *aggregate*, we are studying *Macroeconomics*. Macroeconomics focuses on the determination of output, income, employment (the components of aggregate supply), the price level, the trade balance, and the rate of economic growth. Using a *Keynesian* income determination model, we make the basic assumption that the spending of consumers, business firms, government, and the difference between exports and imports (the trade balance), adds up to *aggregate demand* (or, *GDP* as measured by total expenditures). The level of aggregate demand will determine the corresponding levels of income, output, and employment. Together, *aggregate demand* and *aggregate supply* will determine the price level.

Macroeconomics not only focuses on predicting and describing "*what is*" (positive economics), but also on "*what ought to be*" (normative economics). Positive and normative economics come together in the process of policy-making. There are two major types of policies dealing with the stabilization of the *macroeconomy*, fiscal policy and monetary policy.

Fiscal policy relates to the taxing and spending activities of the government, and the consequent effects on the federal budget. *Monetary policy* deals with changes in the money supply and interest rates. These policies are implemented in order to produce desired changes in the levels of income, output, employment, and the price level.

When exchange takes place between *national economies*, the focus is on resource endowment and allocation, productivity, comparative price levels, interest rates, and relative national currency values. In the analysis of international trade, we encounter such concepts as absolute and comparative advantage, foreign exchange (FX) markets, and the balance of payments.

Learning Objectives of the Course

- Students will learn the basic tools of macroeconomic analysis and their applications in an ethical context
- Students will learn the relationship between the national (macro) economy and the business system
- Students will learn to apply both qualitative as well as quantitative methods of economic analysis
- Students will learn managerial decision-making skills to apply to business
- Students will learn to deal with the problems and issues of the contemporary economy
- Students will learn about the changing roles of business and government in the context of the international economy

Course Format/Attendance/Examinations

Economics 2010 is a lecture course in which students are expected to read the assigned text material in advance, answer and solve assigned questions and problems, and participate in class by answering and asking questions. Regular attendance is required and only documented absences are accepted. Excessive, undocumented absences (three or more) will likely result in a lower final grade.

Examinations must be taken on time, and make-up exams will be given only at the discretion of the instructor. Three examinations valued at 20% each will be given. A comprehensive final examination will be valued at 40%. Both announced and unannounced quizzes should be expected. Written assignments, problems, and quiz material can be expected to appear on examinations.

NOTE: After reading each chapter in the McConnell and Brue text, the student should find the following sections helpful in reviewing important concepts and issues:

- **Summary**
- **Terms and Concepts**
- **Study Questions**

Academic Honesty:

In keeping with our Christian heritage and commitment, North Park University and the School of Business and Nonprofit Management are committed to the highest possible ethical and moral standards. Just as we will constantly strive to live up to these standards, we expect our students to do the same. To that end, cheating of any sort will not be tolerated. Students who are discovered cheating are subject to discipline up to and including failure of a course and expulsion.

Our definition of cheating includes but is not limited to:

1. Plagiarism—the use of another’s work as one’s own without giving credit to the individual. This includes using materials from the internet.
2. Copying another’s answers on an examination.
3. Deliberately allowing another to copy one’s answers or work.
4. Signing an attendance roster for another who is not present.

In the special instance of group work, the instructor will make clear his/her expectations with respect to individual vs. collaborative work. A violation of these expectations may be considered cheating as well.

For further information on this subject you may refer to the Academic Dishonesty section of the University’s online catalog.

In conclusion, it is our mission to prepare each student for a life of significance and service. Honesty and ethical behavior are the foundation upon which such lives are built. We therefore expect the highest standards of each student in this regard.

Readings, Topics, and Assignment Schedule

Week 1	Readings in McConnell and Brue	Study Questions
	Chapters 1 and 2 Appendix to Chapter 1	1 - 12 on pp.19-20; 1 - 7 on p. 42
	The definition of economics; the basic problems of economic organization; introductory concepts and models; production possibilities; the circular flow diagram; types of economic systems; the role of government	
	A brief history of economic thought and method	
	Chapter 3	
	The basic elements of supply and demand; market equilibrium and <i>ceteris paribus</i> ; price elasticity of demand and supply	1 - 8 on p. 63
	Chapter 4	
	The market system and the <i>invisible hand</i>	1 - 4 on p. 82
	Chapter 5 - 7	
	The private sector, the public sector, and the international sector; introduction to National Income Accounting; nominal (money or current dollar) GDP, real (constant dollar) GDP; the implicit price deflator; economic growth; the global economy	5, 6, 7, 11, 12 on pp. 122- 123
		2, 4, 8 on p. 144

EXAMINATION 1

Week 2

Readings in McConnell and Brue

Study Questions

Chapters 8, 9, 10

1, 2, 5, 9, 11 on p. 163;
2, 6, 8, 10, 11 on pp. 184-
185
1, 4, 5, 6 on pp. 203-204

The consumption function (APC, APS, MPC, and MPS);
the determination of the level of investment;
the determination of the equilibrium level of income
in a Keynesian model; the concept of the multiplier;
present and future value analysis; actual and
potential real GDP; the GDP gap

Chapters 11

Aggregate demand, aggregate supply and the
price level; the government sector and the budget

1, 2, 3, 6 on p. 225

EXAMINATION 2

Chapters 12, 13, 14, 15

Money and banking; the commercial bank's balance sheet; how banks create money; introduction to the relationship between fiscal and monetary policy; the foreign sector and exchange rates

Monetary theory: the demand for and the supply of money; the rate of interest; the banking system and the role of the FED; monetary policy

1, 4, 6, 8 on pp. 242-243

1, 2, 3 on pp. 280-281

pp. 249 - 250;

3, 6, 8 on p. 300

1 - 8 on pp. 288 - 289

Chapters 16, 17, 18, 19

The Monetary approach to macroeconomics; the equation of exchange; Friedman's "monetary rule"; the Taylor rule; supply-side economics; the monetary transmission mechanism; the ineffectiveness arguments of Monetarists and Keynesians; the Phillips curve debate; labor market segmentation analysis

5, 6, 9 on p. 318

1, 4 on p. 336

4 p. 359

2, 3, 7 on pp. 379-380

Business cycles; Okun's law; the "new" Phillips curve; can we have *low* inflation and *low* unemployment?; the deficit and the debt; stabilization policies; review of exchange rates and international trade; the balance of payments; free trade and protectionism; trading alliances; economic growth and development

EXAMINATION 3

REVIEW

FINAL EXAMINATION

