

ECN 2020 – Principles of Global Macroeconomics  
Winter 2018  
Section: 11863  
Class Schedule: M, W, F 1:20 – 2:27 a.m.in 102 Wilson Hall

Instructor: Julie Granthen  
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### **Required Text:**

McConnell Macroeconomics, 20th edition, McGraw Hill  
ISBN 978-0077660772 or 0077660773

Optional Text:

Study Guide to Accompany McConnell Macroeconomics, William Walstad, 20th edition, McGraw Hill  
ISBN 0077660641 or 9780077660642

### **Course Description:**

Examines a broad range of macroeconomic concepts such as determination of national income, short-term fluctuations in the economy and long-term economic growth, fiscal and monetary policies, money and banking, inflation and unemployment, with special emphasis on their global significance, and on international comparisons of macroeconomic attributes. The course introduces key concepts that will strengthen understanding of the interlinked global economy, such as comparative advantage, balance of trade and payments, exchange rates, barriers to free trade, international growth convergence, and the impact of cultures and norms on economic performance. Students are highly recommended to take ECN 201 prior to taking ECN 202. (Generally offered every semester and term.) May not also receive credit for ECN 210. *Satisfies the university general education requirement in the global perspective knowledge exploration area or in the social science knowledge exploration area, not both.*  
Prerequisite(s): high school algebra.

### **Grades:**

Grades will be determined on the basis of the scores of four (4) exams and the Economics Department assessment pre and post tests. Each exam will consist of multiple choice and short answer (mainly problems) questions.

In numerical terms:

95% (Exam 1 + Exam 2 + Exam 3 + Exam 4) + 5% (pre and post assessment test scores)

I anticipate using the following grading scale:

95-100	4.0
93-94	3.9
91-92	3.8
89-90	3.7
87-88	3.6
85-86	3.5
83-84	3.4
81-82	3.3
79-80	3.2
77-78	3.1
75-76	3.0
74	2.9
73	2.8
72	2.7
71	2.6
70	2.5
69	2.4
68	2.3
67	2.2
66	2.1
65	2.0
64	1.9
63	1.8
62	1.7
61	1.6
60	1.5
59	1.4
58	1.3
57	1.2
56	1.1
55	1.0
54-below	0.0

#### Student Responsibilities:

Students are expected to attend class regularly. I will take attendance at each class meeting. No make up exams will be given. Turn off cell phones, beepers, and pagers during class sessions. Five (5) points will be deducted from a student's course total for each telephone ring.

Students are encouraged to participate in class discussions and to ask questions.

(Note: reading assignments for the 21th edition will be posted on Moodle.)

<b>Date</b>	<b>Assignment</b>
January 3	Introduction
January 5	Review on Chapter 1 – Limits, Alternatives, and Choices
January 8	Review on Chapter 2 – The Market System and the Circular Flow
January 10	Review on Chapter 3 – Demand, Supply, and Market Equilibrium
January 12	Review on Chapter 4 – Market Failures: Public Goods and Externalities
January 15	No Class – Martin Luther King, Jr Day Recess
January 17	Lecture on Chapter 6 – An Introduction to Macroeconomics
January 19 & 22	Lecture on Chapter 7 – Measuring Domestic Output and National Income
January 24 & 26	Lecture on Chapter 8 – Economic Growth
Jan 29 & 31 & February 1	Lecture on Chapter 9 – Business Cycles, Unemployment and Inflation
<b>February 5</b>	<b>Exam (Chapters 6 through 9)</b> Bring scantron form 882 E or 882 ES and #2 pencil A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, iPods, and cell phones are <b>not allowed</b> .
February 7 & 9	Lecture on Chapter 10 – Basic Macroeconomic Relationships
February 12 & 14	Lecture on Chapter 11 – The Aggregate Expenditures Model
February 16	Lecture on Chapter 12 – Aggregate Demand and Aggregate Supply

February 19 & 21 & 22	No Class – Winter Recess
February 26	Lecture on Chapter 12 Continued
February 28 & March 3	Lecture on Chapter 13 – Fiscal Policy, Deficits, and Debt
<b>March 5</b>	<b>Exam (Chapters 10 through 13)</b> Bring scantron form 882 E or 882 ES and #2 pencil A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, ipods, and cell phones are <b>not allowed</b> .
March 7 & 9	Lecture on Chapter 14 – Money, Banking, and Financial Institutions
March 12 & 14	Lecture on Chapter 15 – Money Creation
March 16 & 19	Lecture on Chapter 16 – Interest Rates and Monetary Policy and
March 21 & 23	Lecture on Chapter 18 – Extending the Analysis of Aggregate Supply
March 26 & 28	Lecture on Chapter 19 – Current Issues in Macro Theory and Policy
<b>March 30</b>	<b>Exam (Chapters 14-19)</b> Bring scantron form 882 E or 882 ES and #2 pencil A calculator that adds, subtracts, divides, and multiplies <b>only</b> is permitted. Programmable calculators, scientific calculators, graphing calculators, ipods, and cell phones are <b>not allowed</b> .
April 2 & 4	Lecture on Chapter 20 – International Trade and CO11 The United States in the Global Economy <a href="http://www.mcconnell20e.com">www.mcconnell20e.com</a>
April 6 & 9 & 11	Lecture on Chapter 21 – Exchange Rates, the Balance of Payments, and Trade Deficits and CO12 Previous International Exchange Rate Systems
April 13 & 16	Lecture on Chapter 21W – The Economics of Developing Countries <a href="http://www.mcconnell20e.com">www.mcconnell20e.com</a>
April 18	Study Day

**April 23**  
3:30 – 6:30 p.m.

**Exam (Chapters 20, 21 and Developing Countries)**  
Bring scantron form 882 E or 882 ES and #2 pencil  
A calculator that adds, subtracts, divides, and multiplies **only** is permitted. Programmable calculators, scientific calculators, graphing calculators, ipods, and cell phones are **not allowed**

**Study Suggestions:**

1. Read Chapters before class. If time permits, reread chapters after the class lecture.
2. For exam preparation, outline chapters and prepare flashcards for new terms.
3. To study for exams, read your class notes and chapter outlines. Review flash cards. Answer end-of-chapter questions and study guide multiple choice questions. Review worked problems for each chapter.
4. If you miss class, copy notes from your neighbor(s).
5. Study every week – don't cram one night before the exam!

Note: The instructor make reasonable revisions as circumstances may require. Any revisions will be announced in class.

## Study Questions for Exam One

Define GDP and its characteristics.

Which of the following are included and which are excluded in calculating this year's GDP? Explain in each instance. (a) A homeowner who mows her own lawn. (b) A decline in the average hours worked per week. (c) Business expenditures on pollution control equipment. (d) Income from illegal drug activities. (e) The person who purchases a health care product.

What is the relationship between real GDP, nominal GDP, and the price index?

Why is GDP a monetary measure?

What is the value added by all the firms A-E from the production of a product as described below? What did each firm add separately in value and what does it total?

Stage of Production	Sales value of product
Firm A	\$4500
Firm B	8600
Firm C	14700
Firm D	20100
Firm E	32300

Which of the following are included and which are excluded in calculating this year's GDP? Explain in each instance. (a) A monthly scholarship check received by an economics student. (b) The purchase of a new corncrib by a farmer. (c) The purchase of a used tractor by a farmer. (d) The cashing in of a savings bond. (e) The services of a mechanic in fixing the radiator in his own car. (f) Social Security checks received by a retired person. (g) An increase in business inventories. (h) Government purchase of missiles. (i) A barber's income. (j) Income received from interest on a corporate bond.

Explain the difference between final and intermediate goods and give two examples of each.

How does NDP differ from GDP?

Define the four categories of expenditures that comprise GDP.

Identify four transactions and other variables which are not included in the Gross Domestic Product.

What is the value added by all the firms A-E from the production of a product as described below? What did each firm add separately in value and what does it total?

Stage of Production	Sales value of product
Firm A	\$1600
Firm B	2500
Firm C	3700
Firm D	5200
Firm E	7600

What is meant by the term business cycle? List and explain the four phases of the business cycle. Draw a diagram to facilitate your answer. What phase of the business cycle is our economy experiencing at the current time? Justify your answer.

Summarize the historical growth record of the United States over the past 50 years in terms of real GDP growth and in terms of real GDP growth per capita.

What phase of the business cycle is our economy experiencing at the present time? Justify your answer.

What are the criticisms of the unemployment rate? How do these criticisms relate to the overstating or understating of the unemployment rate?

“The economic cost of unemployment is measured by the GDP gap.” Explain the statement.

Describe cost-push inflation and its major source.

Evaluate the statement: “Inflation only benefits the rich.”

State two definitions of economic growth.

Explain why even small changes in the rate of economic growth are significant. Use the “Rule of 70” to demonstrate the point

Explain the differences among frictional, structural, and cyclical unemployment.

What is Okun’s law? Give an example of how it works.

Distinguish between cost-push and demand-pull inflation. Be sure to describe the two variants of cost-push inflation. Draw graphs of each.

If the population is 267 million, the labor force is 136 million, and the number measured as unemployed is 6.8 million, what is the rate of unemployment? How is the unemployment rate determined?

Summarize the four supply factors in economic growth. What are the two other factors in economic growth? Explain.

What is more important – increasing inputs of resources or increasing the productivity of those inputs – as the main source of economic growth in the United States?

Explain why even small changes in the rate of productivity are significant. Use the “rule of 70” to demonstrate the point.

Compare and contrast demand-side and supply-side economic policies promoting growth.

### **Study Questions for Exam Two**

Differentiate between the average propensity to save and the marginal propensity to save.

Explain the difference between a movement along the consumption schedule and a shift in the consumption schedule. Show also by graph.

Compare the determinants of consumption with investment. Most economists regard investment as being less stable than consumption. Looking at the determinants of each factor, support this contention.

Whenever there is a change in spending, real GDP will change by a multiple of the initial change in spending. Explain the multiplier effect.

Calculate the multiplier when MPC is .5, .75, .90. What is the relationship between MPC and the multiplier?

“If production results in income and income is the source of spending, it would seem that the production of a full-employment economy would automatically guarantee enough spending to sustain itself. How, then, can unemployment occur?” Explain.

List and explain four factors which could shift the consumption schedule (increase and decrease.)

List and explain five factors that cause a shift in the investment demand curve (increase and decrease.)

Differentiate between the average propensity to consume and the marginal propensity to consume.



Define the multiplier. How is it related to real GDP and the initial change in spending? How can the multiplier have a negative effect?

Compare and contrast the recessionary gap and the inflationary gap. Draw graphs of each.

Define the GDP gap.

Explain Say's Law of Markets.

What is the aggregate supply curve? What are the basic determinants of aggregate supply?

Describe and explain the change in aggregate supply that should result from each of the following changes in determinants. Assume that nothing else is changing besides the identified change. (Use "Decrease" or "Increase.") (a) A rise in the average price of inputs; (b) An increase in worker productivity; (c) Government antipollution regulations become stricter; (d) A new subsidy program is enacted for new business investment in productive equipment; (e) Energy prices decline.

What are the five reasons for the downward price-level inflexibility, especially as it pertains to wages and prices? Is the downward price inflexibility applicable to today's economy? Why or why not?

Explain "cost-push" inflation using aggregate demand-aggregate supply analysis. Use a diagram in your explanation.

What is the aggregate demand curve? Explain the reasons for its downward slope. What are the basic determinants of aggregate demand?

Other things being constant, what will be the effect on each of the following upon the equilibrium level of GDP? (a) An increase in the amount of liquid assets consumers are holding. (b) A sharp rise in stock prices. (c) A rapid upsurge in the rate of technological advance. (d) A sharp increase in the interest rate.

Describe each of the following outcomes in terms of shifts in aggregate demand or aggregate supply curves. Indicate the impact on equilibrium output and the equilibrium price level for each situation. (a) A recession deepens while the rate of inflation increases. (b) The price level rises sharply while real output and employment remain constant. (c) The rate of inflation diminishes, but the unemployment rises. (d) Real output rises, unemployment rate falls, price level is constant.

Describe cost-push inflation in the extended aggregate demand and aggregate supply model. Explain the policy dilemma for government policy if they take no action or use monetary policy and fiscal policy to counter the cost-push inflation.

Describe the process that occurs with demand-pull inflation in the extended aggregate demand and aggregate supply model.

Explain the different timing and political problems which arise in the implementation of fiscal policy.

Explain how the net-export effect would reduce the effectiveness of fiscal policy.

Explain the crowding-out effect.

What is meant by a built-in stabilizer and give two examples.

Explain the aspects of expansionary and contractionary fiscal policy. During which phases of the business cycle would each be appropriate?

Compare and contrast the three budget philosophies. What are the shortcomings of each philosophy?

Explain the causes of the public debt.

Is the public debt a burden on future generations? Why or why not?

Differentiate between the Federal deficit and the Federal debt.

Discuss options for a Federal budget surplus. Discuss possible shortcomings of each option.

### **Study Questions for Exam Three**

What are the three functions that a commodity must fulfill to be useful as money? Explain each function.

What is the difference between M1 and M2 definitions of the money supply?

Are credit cards money? Explain.

Explain how the GDP and the interest rate are related to the transactions and asset demand for money.

Discuss the three major points about what gives money its value.

What are the seven functions of the Federal Reserve System? Which one is the most important? Why?

What are the components of M1 and M2?

Credit cards are not really money. Explain.

What is the history behind the idea of a fractional reserve banking system? What are two significant characteristics of the fractional reserve system?

What is meant by the “Federal Funds market” and what is the Federal Funds rate?

Give an equation that shows the relationship between actual, required, and excess reserves.

Give an equation that shows the relationship between excess reserves, maximum checkable-deposits, and the money multiplier.

Explain the strengths of monetary policy for achieving economic stability.

Explain how a change in the reserve ratio affects the money supply.

Which tool of monetary policy is most important? Why?

Suppose the economy is experiencing recession. What tools of monetary policy would be utilized to address this problem?

What is the predicted net export effect of a tight money policy? Explain.

Define the money multiplier.

Identify two “leakages” which could reduce the money multiplier.

Define the reserve ratio.

What is meant by fractional reserve banking? Discuss the Goldsmiths.

A commercial bank has checkable-deposit liabilities of \$500,000, reserves of \$150,000, and a required reserve ratio of 20 percent. The amount by which a single commercial bank and the amount by which the banking system can increase loans are:

Differentiate between easy and tight money policies. Be sure to identify the three major instruments of monetary policy in your differentiation.

Explain how the net export effect should strengthen the effects of an easy and a tight monetary policy.

Explain how a change in the reserve ratio affects the money supply.

What has been the recent focus of monetary policy?

Which tool of monetary policy is least effective? Why?

What are the two types of demand for money? Explain.

Suppose the economy is experiencing inflation. What tools of monetary policy would be utilized to address this problem?

What is the Phillips Curve? What concept does it illustrate? Construct an example of the curve.

What is the Laffer Curve? Draw one. Explain the relationship shown in the curve. What are the major criticisms of the Laffer Curve?

Explain the arguments for supply-side economics. What are the major criticisms of supply-side economics?

What is stagflation? What were the causes of stagflation in the 1970s and early 1980s?

Explain the equation of exchange.

If nominal GDP is \$848, and the velocity of money is 4, how much is the money supply?

Define the velocity of money. Explain the monetarist view with regard to the stability of velocity.

Distinguish between discretionary monetary policy and monetary “rules.” How do the Keynesian economists and monetarists differ on their recommendations for the use of rules or discretionary policy?

### **Study Questions for Exam Four**

What is NAFTA? What have critics and defenders said about it?

Explain the principle of comparative advantage.

What are major government policies that restrict trade?

What are the major principles of the General Agreement on Tariffs and Trade?

What is the major purpose of the World Trade Organization and its current activity?

How has the European Union benefited member nations?

What are the similarities and differences in the economic effects of tariffs and quotas?

Do protectionist policies benefit producers, consumers, workers, or the government?

Discuss the rationales for the imposition of trade barriers.

Explain how the exchange rate gets determined in a flexible exchange rate system.

What was the gold standard? What was the major problem with the gold standard?

What were the key features of the Bretton Woods system?

What is the “managed float?” What are the advantages and disadvantages of the managed float system of exchange rates?

Describe the vicious circle of poverty.

What are the characteristics of the IACs?

What are the characteristics of the DVCs?

Describe the problem of brain drain.

Explain capital flight.

How can the DVCs foster economic growth? Describe 9 policies.

How can the IACs help the DVCs pursue economic growth? Describe 5 policies