

William & Mary

ECON 102: Principles of Macroeconomics

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(Fall 2020)

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Office Zoom meetings on demand or via email
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Online: RSOF: Mondays and Wednesdays, 2:00 – 3:20 PM
RA Section: Some students may attend this course asynchronously.

Overview

This is the second course in the introductory economics sequence at the College of William & Mary which introduce the basic tools of economic analysis. The first course in the sequence, ECON 101: **Microeconomics**, examines microscopic economic behavior and outcomes at the level of individuals, households, governments, firms, and other organizations. The basic decision-making units of microeconomics engage in myriad interactions, mainly through markets. However, what is true of the individual unit is not necessarily true of the totality of the group, known generally as the Fallacy of Composition.

Macroeconomics, which is the subject matter of ECON 102, is the branch of economics that deals with the behavior of the economy as a whole. We will analyze aggregate variables and behavior and their macroscopic (economy-wide) consequences.

Macroeconomic topics (GDP, Inflation, Unemployment, Deficits, Debt, and Policies.) may be viewed through two lenses: what factors determine the size of the national economy (long-term growth) and what factors drive the fluctuations of the economy (short-term business cycles). Topics covered in this course include: level and changes in the economy's total output of goods and services; unemployment and inflation, the distribution of income; how trade and finance affect the domestic economy; the role of fiscal, monetary, and incomes policies in stabilizing the economy and enhancing its growth performance.

Objectives

Econ 101 is a prerequisite for Econ 102. Many students find introductory courses in economics rather dry and the economic way of thinking fascinating but counter-intuitive. This is because (a) as a social science, Economics employs a rigorous theoretical framework to explain and predict economic behavior; (b) to do this, it needs to use precise language—often subverting everyday words (such as demand and supply) by giving them very specific meanings; and (c) the application of this new language and way of thinking about the world

pays off when you take intermediate and advanced courses. The pain is front-loaded while the gain is back-loaded.

You will be able to take away the following ideas and core competencies from this course on the core principles of macroeconomics:

1. The ability to understand the drivers of differences in the wealth of nations.
2. The ability to analyze federal government policies with regard to spending and taxes.
3. An understanding of the Federal Reserve system and how it influences interest rates and the overall level of economic activity.
4. The ability to use basic macroeconomic models to analyze the economic impact of exogenous shocks to the economy.
5. An understanding of the macroeconomic linkages between different economies.
6. The thinking skills needed to distinguish macroeconomic nonsense from macroeconomic sense.

There are no robust laws in macroeconomics, but you will leave this class by appreciating the following Big Ideas:

1. *Brawn vs. Brain*: Why the level and quality of investment, by enhancing productivity, is key to rapid and shared growth.
2. *Paradox of Thrift*: Why thriftiness is a virtue at the individual level, but an economic problem at the aggregate level.
3. *Expenditure Multiplier*: Why each dollar of spending on newly produced goods and services stimulates the economy by more than a dollar.
4. *Underconsumption Paradox*: Why keeping wages down reduces costs but undermines sales.
5. *Balanced-budget Paradox*: Why balancing the government budget annually can make balancing the budget almost impossible.
6. *Inflation-Unemployment Tradeoff*: Why high inflation may produce low joblessness, but the relationship occasionally breaks down.
7. *Globalization Paradox*: Why technological progress and economic globalization can create enormous wealth while pauperizing the old middle class.

Text and Course Materials

I approach the study of macroeconomics from global and historical perspectives for the simple reason that 80 percent of the \$120 trillion global GDP in 2020 is produced outside the USA.

- 1) The primary textbook for the course is *Macroeconomics*, 2nd edition (Pearson, 2018), by Daron Acemoglu, David Laibson, and John List [ALL]. When you purchase or

rent this textbook, make sure its title is *Macroeconomics*, not *Microeconomics*. You should not spend more than \$100. This textbook is unique for addressing the most important question in economics: How did 1 billion of the nearly 8 billion people become so rich while the bottom 3 billion remain so poor? And why are demand-constrained capitalist economies vulnerable to frequent volatility?

- 2) The third book is a NYT best seller which applies economic principles to answer the most important question in Economics. Acemoglu, Daron, and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Business, 2012. [AR] Purchase the paperback which is cheap and a keeper.
- 3) The supplementary, and free, textbook is *The Economy* by a group of broad-minded economists who call themselves The Core Team (2017). Download and peruse the following macro-relevant chapters [CORE]. The chapters on microeconomic issues are just as interesting when you have the time to explore:

<https://core-econ.org/the-economy/book/text/o-3-contents.html>.

Core chapter 1—The capitalist revolution

Core chapter 10—Banks, money, and the credit market

Core chapter 13—Economic fluctuations and unemployment

Core chapter 14—Unemployment and fiscal policy

Core chapter 15—Inflation, unemployment, and monetary policy

Core chapter 16—Technological progress, employment, and living standards

Core chapter 17—The Great Depression, golden age, and global financial crisis

Grading

Your final grade will be determined as follows: a midterm exam (30%, two tri-weekly tests (15% each) and a cumulative final exam (40%). End-of-chapter problems are the best way to test your comprehension and retention. The solutions will be available in Blackboard. Additional practice problems will also be available. See Course Outline and Reading Assignments for what is covered in the PP Lectures and each test. Attendance is expected per the College Catalog rules and may cost you up to 5 penalty points.

All tests are open-book and timed with the exception of the Final Exam which may be proctored remotely. I will determine the letter grades after inspecting the distribution of the raw scores on the sum total of the graded work.

Missed-Exam Policy

A student who misses one or two weekly exams will receive a score of zero on it, and the student's score on the final exam would (after multiplying by 15/40) then replace the zero at the end of the semester. The final exam is cumulative and mandatory. Make-up final exams will be available only in extraordinary circumstances with documentation from the office of the Dean of Students. There will not be opportunities for extra credit work.

The WM Honor Code and Healthy Together Commitment

Although it is tempting to do it in an environment of remote teaching and learning, use of any unauthorized outside help when completing graded work will be deemed a violation of the College's Honor Code and carries serious consequences. You are expected to comply, where applicable, with the terms of the University's Healthy Together Community Statement (<https://www.wm.edu/sites/pathforward/health/index.php>).

Parts	Reading Assignments	Tests & Exams
1	ALL: Part II, chs. 5-8 CORE: ch. 1 and 16	Test #1 (15%)
2	ALL: Part IV, chs. 10, and 11 CORE: chs. 10, 13, and 17	Midterm (30%)
3	ALL: Part V, chs. 9, 12 and 13 CORE: ch. 15	Test #2 (15%)
4	ALL: Part VI, chs. 14 and 15 AR: Entire book.	Final Exam (40%)
	<u>Final Exam: November 18, 2-5 PM (Eastern).</u>	

Very Useful Online Glossary of Economic Terms:

<https://www.economist.com/economics-a-to-z>.

Also: See my pedagogical notes, "The Core Principles of Economics." Register with CORE to access their cool articles and videos.

I reserve the right to make minor adjustments to this syllabus.