

William & Mary

ECON 102: Principles of Macroeconomics

Prof. Berhanu Abegaz
(Spring 2021)

Office: Tyler 317
Hours: Zoom meetings on-demand or via email
Email: bxabeg@wm.edu
Remote: RSOF: Tuesdays and Thursdays, 2:00 – 3:20 PM
Connect: Make sure that you have a reliable Internet connection

Overview

This is the second course in the introductory economics sequence at the College of William and Mary, which introduces economic the toolkits 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 primary decision-making units of microeconomics engage in myriad interactions, mainly through markets. However, what is true of the individual is not necessarily true 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 relatively dry and the economic way of thinking fascinating but counter-intuitive. This is because (a) as 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 particular 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.

Learning Economics is challenging at the beginning for several reasons: new conceptual vocabulary, reasoning that is often counter-intuitive, the need to use basic algebra and geometry to explain cause-effect relationships. As you proceed, the economic way of thinking becomes intuitive and empowering. You will be able to take away the following ideas and competencies pertaining to 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 understanding, and appreciating their relevance for policy, the following Big Ideas (explained in the Pedagogical Notes posted in BB) :

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

Textbooks

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

- 1) The course's primary textbook is *Macroeconomics*, 2nd edition (Pearson, 2018), by Daron Acemoglu, David Laibson, and John List [ALL]. When you purchase or rent this book, make sure its title is *Macroeconomics*, not *Microeconomics*. You should not spend more than \$100. This textbook is unique for addressing the most critical 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 supplementary book is an NYT bestseller that 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 PPP lecture slides are aligned to the ALL textbook, but the lectures do go a little deeper where necessary. The Lectures and the Textbook are, therefore, complementary.
- 4) The readings for this course are rather light—a little more than a chapter per week. However, the materials are conceptually dense. You need to take a quick look at the chapter(s) before coming to the lectures and then read the material closely a second or a third time by paying particular attention to phrases that are in bold and graphs.

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 one of the best ways to test your comprehension and retention. The solutions for these problems are available in Blackboard. Additional practice problems will also be available, including those embedded in the PPP slides. However you do it—textbook, PPP slides, exercises—*active learning* is the key to success in Economics.

See Course Outline and Reading Assignments for what is covered in the PPP Lectures and each test. Attendance is expected per College Catalog rules (zoom takes attendance automatically) and may cost you up to 5 penalty points. Help sessions by the instructor and the student assistant will be announced in due course.

All tests are open-book and timed for two hours, i.e., you will have an additional 40 more minutes for any uploading you will have to do onto Blackboard. Please do not let this permissiveness delude you into thinking that you can simply look up the answers. The Final Exam may, however, be proctored remotely. I will determine the cutoff points for letter grades after inspecting the raw scores' distribution on all graded work.

Missed-Exam Policy

A student who misses an exam without notice of a compelling reason will receive a score of zero on it. The final exam is cumulative and mandatory date changes are at the discretion of the Dean of Students. There will not be opportunities for extra credit work that are not offered to everyone in the class.

The WM Honor Code & Healthy Together Commitment

Although it is tempting in an environment of remote teaching and learning, the 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 also expected to comply 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 I (review of basic economic concepts) ALL: Part II, chs. 5-6	Test #1 (15%)
2	ALL: Part III, chs. 7, 8, plus 10.1 and 11.1	Midterm Exam (30%)
3	ALL: Part IV, chs. 9, 10-11 (remainder), 12 and 13	Test #2 (15%)
4	ALL: Part V, chs. 14 and 15 AR: Entire book.	Final Exam (40%)
(*)	Minor changes to the assigned readings may be made.	

Very Useful Online Glossary of Economic Terms:

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

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