

Department of Economics  
University of Toronto  
Summer 2011

## **ECO 209Y – L0101 MACROECONOMIC THEORY**

MW10-1 – MP 137

### **INSTRUCTOR**

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### **OFFICE HOURS**

Tuesdays, 11:00 – 12:00

### **COURSE DESCRIPTION**

The aim of this course is to provide full coverage of modern macroeconomic theory and to demonstrate the use of theory in analyzing important macroeconomic issues in Canada, such as unemployment, inflation, productivity slowdown, high interest rates, and volatile exchange rates. Special attention will be paid to the effects of the key monetary and fiscal policy variables: government taxation and expenditure decisions and central bank money supply decisions.

### **RECOMMENDED TEXTBOOK**

R. Dornbusch, S. Fischer, R. Startz, F.J. Atkins, and G.R. Sparks, *Macroeconomics*, Seventh Canadian Edition (McGraw-Hill Ryerson, 2005). The purchase of the accompanying study guide by L. Magee is also recommended.

### **LECTURES**

Lectures will be held on Mondays and Wednesdays from 10:00 AM to 12:00 noon in room MP 137.

### **CASE STUDIES**

Formal lecture presentations will be complemented with case-study analyses where students will be able to express their views and understanding based on the theoretical and technical knowledge acquired in the course and beyond. There will be about 4 to 6 case studies mostly concentrated in the second half of the course.

### **TUTORIALS**

Tutorials will be offered weekly to answer questions arising from the problem sets, end-of-chapter problems, the Study Guide, or other course material. Tutorials will be held on Wednesdays (and occasionally on Mondays) from 12:00 to 1:00 PM in room MP 137.

## ECONOMICS AID CENTRE

Tutors will be available to provide individual instruction on course material at the Economics Aid Centre. Times and location will be announced later.

## TESTS/EXAM

There will be two 2-hour tests and the final exam. The tests will be written on June 17 and July 22 from 2:00 to 4:00 PM in a location to be announced. Note that the tests will **not** be written during regular lecture times. Students with a time conflict with another course will be allowed to write the tests from 4:00 to 6:00 PM. In such cases, students must submit evidence — and receive approval — at least one week before the date of the test.

## EVALUATION

The breakdown of the final grade will be as follows: each of the two tests will count for 25% of the final mark, and the final exam will count for the remaining 50% of the final mark.

## MAKE-UP TEST

Students missing a term test for a certified medical reason, or other approved cause, will be permitted to write a comprehensive make-up test. **In these instances, students are required (without exceptions) to submit official documentation within one week of the missed test.** The official University of Toronto Medical Certificate, available for downloading from the course website, must be used. **Medical Certificates must be submitted to the instructor in person (i.e., not by fax or e-mail).** **Students who do not qualify for writing the make-up test will receive a grade of zero for the missed test.** The make-up test will be written on Friday, July 29 from 2:00 to 4:00 PM in a location to be announced. Please note that the make-up test will cover the entire material for Tests 1 and 2. Also note that there will be no special allowance for any possible time conflict.

## SUBMISSION OF MEDICAL CERTIFICATES

The University is cracking down on the excessive use — i.e., abuse — of doctors' notes to request tests and exam deferrals. Doctors' notes are supposed to certify that a student was ill and thus unable to write a test on a specific date, but they are not supposed to be used as an instrument for time management. The Office of Student Academic Integrity (OSAI) has started to evaluate the submission of suspicious medical certificates.

If you are unable to write any of the tests for medical reasons, you must submit a doctor's note where the physician clearly indicates that in his/her professional opinion you were unable to write the test on that particular date. This means that the doctor cannot limit him/herself to repeat what you have told him/her — the physician must clearly certify that you were sick **and** unable to write the test on that particular day.

Note that medical certificates indicating conditions such as headaches, stomach ache, cold or other similar conditions will not be accepted as sufficient excuse for not writing a test. All suspicious submissions of medical certificates will be rejected or forwarded to OSAI for further evaluation.

## ACADEMIC INTEGRITY

Academic integrity is one of the cornerstones of the University of Toronto. It is critically important both to maintain our community which honours the values of honesty, trust, respect, fairness and responsibility and to protect you, the students within this community, and the value of the degree towards which you are all working so diligently.

According to Section B of the University of Toronto's *Code of Behaviour on Academic Matters* (<http://www.utoronto.ca/govcncl/pap/policies/behaveac.html>), which all students are expected to know and respect, it is an offence for students:

- To obtain under false pretence a doctor's note.
- To obtain unauthorized assistance on any assignment.
- To provide unauthorized assistance to another student. This includes showing another student completed work (e.g., an answer in a test).
- To falsify or alter any documentation required by the University. This, includes, but is not limited to, doctor's notes.
- To use or possess an unauthorized aid in any test or exam (e.g., a cell phone).
- To continue writing when the time is up in any test or exam.

There are other offences covered under the Code, but these are by far the most common. Please respect these rules and the values which they protect.

## MARKING AND APPEALS

Disputes over the evaluation of a test should be discussed with the instructor. After reviewing the solution posted on the course website, submit in person a brief note clearly indicating the reasons for your disagreement with the marking. Disagreement with the marking means that an error might have been made — for instance, the marker failing to consider a part of your answer. Note that indicating that in your view you deserved a higher mark is not a sufficient reason for requesting a remarking of a test. You must submit your appeal **within one week** after the test is returned to students. Please note that all questions of the test will be remarked and not only the question in dispute.

## SOLUTIONS TO PROBLEM SETS

The purpose of the problem sets is to help you build skills and to deepen your understanding of the course material. One important skill is being able to figure out a solution approach to a problem that you have not seen before. To develop this skill and get a thorough comprehension of the subject you must make every effort to solve the problem yourself with the help of your lecture notes and the textbook. Consider answering these questions as if they were part of an open-book exam with the additional advantage of not having a time constraint. After you complete your answer to a question, then compare it to the solution provided in order to confirm that your answer is correct or to reflect where you might have gone wrong.

Looking at the solutions before attempting to answer the questions is not helpful. You might look at the solution and say: "Oh, this is easy." And it might be easy, but you haven't learned anything from this exercise. I would dare you to wait 30 minutes and attempt to answer the same question without looking at the solution. You will see that the "easy" answer to the question is still as difficult as it was 30 minutes earlier. To look at the solutions first is the wrong approach — most likely you will forget the correct "easy" answer in no time. However, if you get to answer the question by yourself you will learn a lot more than just what the correct answer might be. You will learn "how" to get to the correct answer and you will also learn

many details that had escaped you when you read your lecture notes and the textbook time and time again. And I can assure you that what you learn in this way you will not easily forget. Of course, all this also applies to the solutions to old tests posted on the course website. **Attempt to answer these old tests without looking at the solutions!**

## **COURSE OUTLINE AND READING ASSIGNMENTS**

**Note:** The reading assignments complement the material presented in the lectures. The textbook and the lectures are **complements** and **not substitutes**.

### ***I. INTRODUCTION AND DETERMINATION OF NATIONAL INCOME***

1. Introduction (Ch. 1)
2. National Income Accounting (Ch. 2)

### ***II. THE FIXED PRICE MODEL***

3. Aggregate Expenditure and Equilibrium Income (Ch. 10)
4. The IS-LM Model (Ch. 11, except section 11.4)
5. Monetary and Fiscal Policy (Ch. 12)
6. Introduction to the Open Economy (Ch. 5)
7. Open Economy with Fixed Exchange Rates (Ch. 13)
8. Open Economy with Flexible Exchange Rates (Ch. 13)

### ***III. THE FLEXIBLE PRICE MODEL***

9. The Derivation of the Aggregate Demand Curve (Ch. 11 – section 11.4 only – and Ch. 6)
10. The Derivation of the Aggregate Supply Curve (Ch. 3 – section 3.1 only)
11. The Interaction between the AD and AS Curves
12. The Aggregate Supply Curve and Sticky Wages (Ch. 7)
13. The AD and AS Curves and Inflation (Ch. 7 and Ch. 8)
14. The AD and AS in an Open Economy (Ch. 9)

### ***IV. BEHAVIOURAL FOUNDATIONS***

15. The Demand for Money (Ch. 16 and Ch. 3 – section 3.3 only)
16. The Supply of Money (Ch. 18)
17. The Consumption Demand (Ch. 14 and Ch. 19 – section 19.4 only)
18. The Investment Demand (Ch. 15)