

Department of Economics  
University of Toronto  
Fall 2017

# ECO 209Y – L0101

## Macroeconomic Theory and Policy

Tuesday, 10:00 AM – 1:00 PM

### INSTRUCTOR

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### OFFICE HOURS

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Monday, 10:00 – 11:00 AM

### COURSE DESCRIPTION

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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

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R. Dornbusch, S. Fischer, R. Startz, F.J. Atkins, and G.R. Sparks, *Macroeconomics*, Seventh Canadian Edition (McGraw-Hill Ryerson, 2005). (**Copies of this book are available at the short-term loan library at Robarts.**)

R.L. Ostergard, Jr. and S.B. Fisher, *Kickstarting Your Academic Career: Skills to Succeed in the Social Sciences* (University of Toronto Press, 2017).

### LECTURES

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Lectures will be held on Tuesday from 10:00 AM to 12:00 noon (and occasionally to 1:00 PM) in room EM 001.

### CASE STUDIES

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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 10-12 case studies mostly concentrated in the second term. All case-studies will be part of the required course material for term tests and final exam.

## ECONOMIC NEWS

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Economic news will regularly be posted on the course website in order to familiarize students with relevant current economic issues. All posted news items will be part of the required course material for term tests and final exam.

## TUTORIALS

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Tutorials will be offered weekly to answer questions arising from the problem sets, end-of-chapter problems, or other course material. Tutorials will be held on Tuesday from 12:00 to 1:00 PM in room EM 001.

## ECONOMICS AID CENTRE

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Tutors will be available to provide individual instruction on course material at the Economics Aid Centre. The Centre will operate according to the following schedule:

Day	Time	Location
Wednesday	1:00 – 2:00 PM	GE 168
Thursday	1:00 – 2:00 PM	GE 168

## ECONOMICS STUDY CENTRE

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The Economics Study Center is staffed by third- and fourth-year undergraduate students who act as peer mentors to Economics and Commerce students. The peer mentors assist students on a one-to-one basis or in study groups. The Centre will operate in room GE 110 during the following hours: Monday to Thursday from 11:00 AM to 5:00 PM; and Friday from 1:00 to 3:00 PM. Further information can be found on the Centre's website (<http://www.economics.utoronto.ca/index.php/index/undergraduate/load/studyCentre>).

## TESTS/EXAM

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There will be three 2-hour tests and the final exam. The tests will **not** be written during regular lecture times. They will be written on the following dates:

	Date	Time	Location
Test 1	Friday, October 27	4:00 to 6:00 PM	TBA
Test 2	Examination week (Dec. 9-20)	TBA	TBA
Test 3	Monday, February 12	5:00 to 7:00 PM	TBA

Students with a time conflict will be allowed to write the tests at an alternative time. In such cases, students must submit evidence — and receive approval — **at least one week** before the date of the test. Please note that a “time conflict” means that you have a regular university class at that time.

## CROWDMARK

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All term work will be graded through *Crowdmark*, a collaborative online grading platform that helps instructors evaluate student work more effectively. Term tests and paper will be scanned and uploaded to *Crowdmark* where they will be graded by the course TAs. Results with feedback will be emailed to students for viewing in a web browser.

## TERM PAPER

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As part of the course requirements, students will write a short **term paper** on a specific topic to be assigned on **February 13**. The paper should be about 1,500 words (+/- 5%) in length (5-6 double-space pages). A **first draft** of the paper will be due at the beginning of class on **March 13** and the penalty for late submission will be **20 percentage points** of the term paper mark without exceptions. The **final draft** of the term paper will be due at the beginning of class on **March 20** and the penalty for late submission will be **5 percentage points per day** without exceptions.

Note that, in addition to providing a hard copy, students will be asked to submit both the **first draft** and **final draft** of their term paper to Turnitin.com for the detection of possible plagiarism. The **first draft** of the paper must be submitted to Turnitin.com before midnight of **March 13** and the **last draft** before midnight of **March 20**. The detailed procedures for submission will be announced later.

The University requires that the following paragraph be included in the syllabus of all courses using Turnitin.com:

*Normally, students will be required to submit their course essays to Turnitin.com for a review of textual similarity and detection of possible plagiarism. In doing so, students will allow their essays to be included as source documents in the Turnitin.com reference database, where they will be used solely for the purpose of detecting plagiarism. The terms that apply to the University's use of the Turnitin.com service are described on the Turnitin.com web site.*

Please note that you are not obligated to submit your paper to Turnitin.com. If you object to submit your paper to Turnitin.com, let me know by **February 27** and I will offer you a reasonable offline alternative.

## EVALUATION

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The breakdown of the final grade will be as follows: **each of the three tests** will count for **15 percent** of the final mark, the **term paper** will also count for **15 percent** of the final mark, and the **final exam** will count for the remaining **40 percent** of the final mark.

## GUIDELINES FOR WRITING THE TERM PAPER

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There are several Writing Centres at the University of Toronto where you can receive helpful information to guide you in writing an academic essay. A list of these Writing Centres can be accessed at <http://www.writing.utoronto.ca/writing-centres/centres>. More general advice on academic essay-writing can also be electronically accessed at <http://www.writing.utoronto.ca/advice/general/general-advice>.

## MAKE-UP TEST

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Students missing any one of the term tests for a certified medical reason, or other approved cause, will be permitted to write a comprehensive (cumulative) make-up test. **In these instances, students are required (without exceptions) to submit official documentation within one week of the missed test.** In the case of illness, the University of Toronto official *Verification of Student Illness or Injury* form, available for downloading from the course website, must be used. **This form must be submitted to the instructor in person (i.e., not to the Department's receptionist and not by fax or e-mail). Students deemed ineligible 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, **March 2** 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 included in Tests 1, 2 and 3. **Also note that there will be no special allowance for any possible time conflict.**

## SUBMISSION OF MEDICAL CERTIFICATES

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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)** will evaluate the submission of suspicious medical certificates.

If you are unable to write any of the tests for a medical reason, you must submit an official University of Toronto *Verification of Student Illness or Injury* form 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 *Verification of Student Illness or Injury* forms indicating conditions such as headaches, stomach ache, cold or other similar conditions will usually 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.

## MARKING AND APPEALS

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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.**

## ACADEMIC INTEGRITY

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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 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.
- To submit a medical note to get out of a test when the student is not actually sick.

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. [For useful tips for avoiding academic misconduct visit the website of the Office of Student Academic Integrity at <http://www.artsci.utoronto.ca/osai/students/how-can-i-avoid-an-offence.>]

## **SOLUTIONS TO PROBLEM SETS**

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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 use of 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**

#### **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 Stabilizing Role of the Government (Ch. 10)
5. The IS-LM Model (Ch. 11)
6. Monetary and Fiscal Policy (Ch. 12)
7. Introduction to the Open Economy (Ch. 5)
8. The Open Economy with Fixed Exchange Rates (Ch. 13)
9. The Open Economy with Flexible Exchange Rates (Ch. 13)

#### **III. THE FINANCIAL SECTOR**

10. Neo-Keynesian View on Money and Banking (Ch. 18)
11. The IS-LM Model and Exogenous/Endogenous Money

#### **IV. THE FLEXIBLE PRICE MODEL**

12. The Derivation of the Aggregate Demand Curve (Ch. 11, section 11.4 and Ch. 6)
13. The Aggregate Supply Curve and Fiscal Policy (Ch. 3, section 3.1)
14. Labour Market Rigidities and the AS Curve (Ch. 7)
15. Inflation and the AD and AS Curves (Ch. 7 and Ch. 8)
16. The AD and AS in an Open Economy (Ch. 9)