

University of Ottawa
Department of Economics

ECO 2142
Macroeconomic Theory I

Fall 2007

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Course Description

This course explores various parts of modern macroeconomic theory with the objective of providing students some analytical tools that will allow them to better understand the key macroeconomic events that are occurring in Canada and around the world. The course is divided into two main parts focusing, respectively, on the analysis of economic fluctuations in the short-run, and on the medium-run determination of the main macroeconomic variables, including production and unemployment. The analysis of long-run economic growth will be discussed in the winter semester. Some of the topics that will be covered in the first part include the equilibrium in the goods market and in financial markets, the determination of output and interest rates in the short-run, and the analysis of the open economy including the determination of exchange rates. In the second part, we will characterize the labour market equilibrium and the level of employment in the medium-run, and we will develop a general model of the overall macroeconomic equilibrium. We will also examine the relationships between money growth, inflation and unemployment. In both parts of the course, we will analyze the effects of fiscal policy and monetary policy on the evolution of output, unemployment, interest rates, exchange rates and inflation. Finally, throughout the course, references will be made regularly to some of the main macroeconomic events and trends of the last few decades in Canada and around the world.

Evaluation

There will be three exams. The first two will be held during the term. They are scheduled on October 5th and November 2nd. The best result among these two exams will be worth 30% of the final grade and the other one will be worth 20%. In addition, there will be a final exam worth 50% of the final grade. The date of the final exam will be determined by the University.

Textbook: The mandatory textbook is *Macroeconomics*, Third Canadian Edition, by Olivier Blanchard and David Johnson, Prentice Hall, 2007. It is available at the University bookstore.

Exercises and problems: You are strongly encouraged to work on the exercises and problems from the textbook. Solutions for selected ones in each chapter will be prepared and posted on WebCT.

Important note: Reading the textbook is essential but not sufficient to succeed in this course. Attending class is also critical. Important concepts and examples, not included in the textbook, will be presented in class. Current macroeconomic events will also be discussed in class and will be part of the examination material.

Course Outline

1. Introduction

- 1.1. Macroeconomic trends and major events – Chapter 1
- 1.2. The main macroeconomic variables – Chapter 2

2. The Short Run

- 2.1. The determination of equilibrium consumption, investment, output and the interest rate in the short run
 - 2.1.1. The goods market – Chapter 3
 - 2.1.2. Financial markets – Chapter 4
 - 2.1.3. Goods and financial markets: The IS-LM model – Chapter 5
- 2.2. The open economy
 - 2.2.1. Openness in goods and financial markets – Chapter 6
 - 2.2.2. The goods market in an open economy – Chapter 7
 - 2.2.3. Output, the interest rate, and the exchange rate – Chapter 8

3. The Medium Run

- 3.1. The determination of equilibrium consumption, investment, output and the interest rate in the medium run
 - 3.1.1. The labour market – Chapter 9
 - 3.1.2. Putting all markets together: The AS-AD model – Chapter 10
- 3.2. Inflation and unemployment
 - 3.2.1. The Phillips curve – Chapter 11
 - 3.2.2. Inflation, activity, and money growth – Chapter 12
- 3.3. Exchange rates in the medium run: adjustments, crises, and regimes – Chapter 13