

ECO 2143: Macroeconomic Theory II

Winter 2008

Professor:

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Course Description

This section forms the second part of an intermediate course in macroeconomic theory. Macroeconomics is the study of *global economic phenomena*, at both country and world levels. Such phenomena include the evolutions of per capita income levels, rates of output growth, poverty, welfare, inequality, unemployment, inflation rates, interest rates, and foreign exchange rates.

While the first part of this course considered the short and medium run study of macroeconomics, this second part is devoted mainly to long run phenomena. The objective is to make students understand what determines economic wealth and growth in the long run. To this end, some historical facts are explained with the help of elementary theories of growth. The roles of savings and accumulations of physical and human capitals are considered along with that of a country's institutions. The concept of productivity growth is introduced and put in relation to the innovation and competitive processes. The importance of the roles played by population growth, natural resource endowments, globalization and inequality are considered.

A final section of this course returns to issues pertaining to the short and medium run. Its objective is to introduce students to the roles played by uncertainty and expectations in explaining macroeconomic fluctuations.

Evaluation

There will be two mid-term (1.5 hour) and one final (3 hours) examinations, with weights of 20% and 50% respectively. Unless otherwise noted, mid-term examinations will take place on Mondays February 4th and March 10th. The date of the final exam is to be determined by the Faculty. There is no provision for make-up exams.

Exercises will be assigned weekly. Each must be submitted **individually** on the following week, Monday morning at 10h00 sharp, i.e. **before the class begins**. (Due to the large size of the audience, there cannot be any exception to this rule; please respect it.) Assignments will globally count for 10% of the final mark. Note that since solutions will be provided, assignments will not be corrected in detail. **The sole purpose of weekly assignments is to encourage students to work regularly and be up to date with the material.** The corrector will thus look for assiduity only; not for right and wrong answers.

Textbook and Resources

The course's material is based primarily on the textbook titled *Economic Growth* by David Weil, Addison Wesley, 2005. It is available at both the University and Agora bookstores. Its reading is mandatory.

The part on expectations and uncertainty will be based on *Macroeconomics: Third Canadian Edition* by Olivier Blanchard and David Johnson, Prentice Hall, 2007. Its reading is however not mandatory as the course's slides and class notes will contain all the necessary material originating from this source.

Slides and detailed solutions to exercises will be posted on the course's website.

Weekly tutorials will be taught by the TA every XXXXX at XXh00-XXh00 in room XXX. Those tutorials are devoted to solving assigned exercises. They are designed to help those students who feel the need for further clarification after having gone through the posted solutions. Attendance to tutorials is thus fully optional; no new material will be covered there.

Topics¹

1. The Long Run
 - (a) Some historical facts about economic growth and development
 - (b) The proximate causes of economic development
 - i. Factor accumulation and saving; Physical capital; Human Capital; The Solow model
 - ii. Technological progress
 - iii. Population growth; Malthusian growth; The fertility transition
 - iv. Trade; Comparative advantage; Foreign direct investment; Globalization
 - v. Efficiency
 - (c) The fundamentals
 - i. Government
 - ii. Institutions
 - iii. Natural resources; Geography; The environment
 - iv. Inequality
2. Extensions to short and medium run macroeconomics: Uncertainty and expectations
 - (a) The basic tools
 - (b) Financial markets and expectations
 - (c) Expectations, consumption, and investment
 - (d) Expectations, output, and policy

¹Topics and their timing are subject to change.