MACROECONOMIC THEORY III ECO 3152 YAZID DISSOU FALL 2008

Course schedule: Tuesdays 16:00-17:30 and Thursdays 14:30-16:00 Course location: SMD 425 Office: DMS 10116 Office hours: Thursdays 10:30 -12:00 Telephone: 613-562-5800 ext. 1686 E-mail:ydissou@uottawa.ca Assistant: TBA

OFFICIAL COURSE DESCRIPTION

The microfoundations of macroeconomic theory. Business cycle theories. Monetary and fiscal policies in a closed economy. Neoclassical growth theory and theories of endogenous growth.

COURSE OBJECTIVES

The course will provide an overview of the most important topics in macroeconomics with the help of various theoretical models. We will study both short-run and long-run issues related to economic growth and analyse the role of both fiscal policy and monetary policies. A special emphasis will be put on models using microeconomic principles in the specification of the behaviour of economic agents (consumers and firms).

After reviewing some definitions and measurement issues related to macroeconomic aggregates, we will develop a basic static general equilibrium model in which the interactions of consumers, firms and government lead to a competitive equilibrium. This static framework will be extended by introducing a time dimension to analyse the determinants of long-run growth and the sources of business cycle fluctuations. Later on, by introducing money in the model economy, we will be able to discuss the impact of monetary policy on real economic activity. We will then discuss the potential role for the government in smoothing these fluctuations through alternative theories on business cycles.

By the end of the course, students are expected to interpret economic models and to analyze the macroeconomic performance of a given country in the context of these models. Students are strongly encouraged not just to learn the theoretical models covered in class, but also to focus on the intuition behind them and on their relevance in explaining macroeconomic events.

ORGANIZATION

The course is organised around two weekly lectures. A sequential approach will be used in the exposition of various models; each element will be built on what was seen before. Class attendance is strongly recommended, as not all the materials discussed in class are thoroughly covered in the textbook. Students will have the opportunity to master the materials covered in class and deepen their knowledge through graded homework assignments.

PREREQUISITES

The course Macroeconomic Theory II (ECO ECO2543) is a prerequisite to the present. Moreover, students are expected to work easily with functions, equations, derivatives, etc.

EVALUATION

- Homework assignments (4) 25%
- Mid-term exam (35%) tentative date: October 14, 2008
- Final exam (40%)

The assignments, which are designed to prepare the students for the exams, should be handed in groups of two. Although collaboration on assignments is desirable and can improve learning, it is strongly recommended that attempts be made individually to answer all questions prior consulting others. Failure to hand in the assignments or to write the mid-term exam will amount to a grade of zero unless justified by exceptional circumstances. There will be no deferred mid-term exam and the weight of the mid-term exam will be added to that of the final exam.

*<u>Please note:</u> The take home exam must be submitted to the professor directly, it cannot be slid under the office door.

For useful tips on how to write a University paper, please refer to the following Website: <u>http://www.sciencessociales.uottawa.ca/USB/cleusbkey.swf</u>.

TEXTBOOK

The required textbook, which is available at the University Bookstore, is Stephen D. Williamson (2007) Macroeconomics, Second Canadian edition, Pearson Addison Wesley (<u>http://www.pearsoned.ca/williamson</u>)

Class notes and additional readings will be distributed through class webpage (virtual campus)

COURSE OUTLINE

Lecture 1: Introduction and Measurement Issues Williamson Ch. 1, 2 and 3

Lecture 2: Consumer and Firm Behaviour: The Work–Leisure Decision and Profit Maximization Williamson Ch. 4 and Mathematical Appendix Ch. 4

Lecture 3: A Closed-Economy One-Period Model

Williamson Ch. 5 and Mathematical Appendix Ch. 5

Lecture 4: A Two-Period Model: The Consumption–Savings Decision and Ricardian Equivalence

Williamson Ch. 8 and Mathematical Appendix Ch. 8

Lecture 5: A Real Intertemporal Model with Investment

Williamson Ch. 9 and Mathematical Appendix Ch. 9

Lecture 6: Economic Growth: The Solow Model

Williamson Ch. 6, 7 and Mathematical Appendix Ch. 6 and 7

Lecture 7: Economic Growth: Endogenous Growth Model Williamson Ch. 7 and Mathematical Appendix Ch. 7

Lecture 8: A Monetary Intertemporal Model: The Neutrality of Money, Long-Run Inflation and Money Demand Williamson Ch. 10

Lecture 9: Equilibrium and Disequilibrium Business Cycle Models Williamson Ch. 11 and 12

Absence from an examination or late submission of an assignment

Absence from any examination or test, or late submission of assignments due to illness, must be justified; otherwise, a penalty will be imposed. The Faculty reserves the right to accept or reject the reason offered. Reasons such as travel, employment, and misreading the examination schedule are not usually accepted.

Beware of Academic Fraud!

Academic fraud is an act committed by a student to distort the marking of assignments, tests, examinations, and other forms of academic evaluation. Academic fraud is neither accepted nor tolerated by the University. Anyone found guilty of academic fraud is liable to severe academic sanctions.

Here are a few examples of academic fraud:

- engaging in any form of plagiarism or cheating;
- presenting falsified research data;
- handing in an assignment that was not authored, in whole or in part, by the student;
- submitting the same assignment in more than one course, without the written consent of the professors concerned.

In recent years, the development of the Internet has made it much easier to identify academic plagiarism. The tools available to your professors allow them to trace the exact origin of a text on the Web, using just a few words.

In cases where students are unsure whether they are at fault, it is their responsibility to consult the University's Web site at the following address: <u>http://www.socialsciences.uottawa.ca/eng/writing_tools.asp</u> « *Tools for Writing Papers and Assignments »*.

Persons who have committed or attempted to commit (or have been accomplices to) academic fraud will be penalized. Here are some examples of the academic sanctions, which can be imposed:

- a grade of « F » for the assignment or course in question;
- an additional program requirement of between 3 and 30 credits;
- suspension or expulsion from the Faculty.

Last session, most of the students found guilty of fraud were given an « F » for the course and had between three and twelve credits added to their program requirement.

For more information, refer to:

http://www.uottawa.ca/academic/info/newsletter/fraud_e.html