

ECON 1100 - Basic Macroeconomics

Fordham University

Spring 2015

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Class Hours and Location: Monday & Thursday 4:00 pm - 5:15 pm, FMH 316

Office Hours and Location: Monday & Thursday 6:45 pm - 8:15 pm, Dealy Hall E-545

Required Text: Frank and Bernanke, *Principles of Macroeconomics*, 5th Edition

Course Description: This is an introductory course in macroeconomics which requires no prior work in the field. Stressing the development of both conceptual and analytical skills, we will survey a range of basic economic concepts, apply them to current issues and critically discuss various contemporary and historical perspectives. In particular, we examine: how decentralized markets allocate resources; how economists measure economic activity and the cost of living; how the economy evolves in the long-run through capital accumulation and technological change; how the benefits of economic growth are distributed among households; how the financial and banking systems match borrowers with savers and how they can experience crises; how the economy experiences short-run fluctuations to output and employment; whether and when the use of a government's fiscal policy or a central bank's monetary policy can stabilize output, employment, and inflation. Real world data with a focus on the Post-War era in the U.S. and current events are presented where appropriate.

The concept of the 'Conventional Wisdom' was made popular by the late economist J.K. Galbraith who used it to describe ideas which are esteemed at any time not particularly for their empirical relevance, but for their acceptability. He wrote: "Economic, like other social life...often seems incoherent, inchoate, and intellectually frustrating...Neither man's curiosity nor his inherent ego allows him to remain contentedly oblivious to anything that is so close to his life." Rather than adhere to the ideas manifested by the conventional wisdom, a goal of this course is equip the student with the tools necessary to identify popular fallacies and to form a logical platform from which to view economic life. Existing beliefs may be challenged and therefore discussing the conflicting perspectives on concepts and self-reflection are encouraged. Economics cannot be learned from reading *The Wall Street Journal* or *Atlas Shrugged*, or from watching *The Daily Show*, or listening to talk radio. While these can help you *care* about economics, you will learn to *understand* economics through the assigned readings, problem sets, and participation in the classroom discussion. Economic ideas will at the minimum allow you to become a more informed voter and engaged participant in society, but ideally give you a new window from which to view the world.

Attendance and Classroom Etiquette: Fordham University requires students to regularly attend class and unexcused absences to not exceed 4 lectures. When you attend class, be punctual and prepared to engage in discussion. The relevant material should be read prior to class as the lectures expand upon the readings. Laptops, tablets, and iPads are strictly not allowed.

Problem Sets: Throughout the semester problem sets will be assigned, but will not be collected for credit. As you will learn, it is in your best interest to actually work through the problem sets since the material emphasized here is relevant for the exams. I will answer questions in class as requested.

Exams: There will be 3 exams. While the exams are not explicitly cumulative, economic concepts build upon each other. Without sufficient understanding of the early fundamental concepts, the subsequent material will become increasingly more difficult. To prepare, you are encouraged to complete the assigned problems and readings, ask questions during class, or see me at office hours for further assistance.

Policies on Missed Exams: Make-up exams will be given only under extraordinary circumstances documented before the regular exam time indicated in class and subject to my approval.

Grading Procedure: First Exam: 30%. Second Exam: 30%. Final Exam: 40%. No extra credit.

Academic Integrity: Make yourself familiar with the University's policy on academic integrity in the student handbook. There will be *zero* tolerance for academic dishonesty. Any student caught engaging in such behavior will immediately be reported according to the University's standard procedure.

Tutoring Center: While I will be glad to answer any questions regarding course material during of-
fice hours, the Fordham Economics Department offers free tutoring services to undergraduates for Basic
Macroeconomics, Microeconomics, and Statistics. The Rose Hill Economics Tutoring Center is located
in Dealy Hall E-535 and open Monday-Thursday 10:00A.M.-5:00 P.M. The Lincoln Center Economics
Tutoring Center is located in L-302F and open Monday-Thursday 10:00A.M.-4:00 P.M.

Fordham Office of Disability Services: Under the Americans with Disabilities Act and Section
504 of the Vocational Rehabilitation Act of 1973, all students, with or without disabilities, are entitled
to equal access to the programs and activities of Fordham University. If you believe that you have a
disabling condition that may interfere with your ability to participate in the activities, coursework, or
assessment of the object of this course, you may be entitled to accommodations. Please schedule an
appointment to speak with someone at the Office of Disability Services (Rose Hill - O'Hare Hall, Lower
Level, x0655 or at Lincoln Center - Room 207, x6282.

Useful blogs for the economic analysis of current events from contrasting views:

Paul Krugman: krugman.blogs.nytimes.com

Mark Thoma: economistsview.typepad.com

Scott Sumner: themoneyillusion.com

Tyler Cowen: marginalrevolution.com

*The ideas of economists and political philosophers, both when they are right and when they
are wrong, are more powerful than is commonly understood. Indeed the world is ruled by
little else. Practical men, who believe themselves to be quite exempt from any intellectual
influence, are usually the slaves of some defunct economist. Madmen in authority, who
hear voices in the air, are distilling their frenzy from some academic scribbler of a few
years back...But, soon or late, it is ideas, not vested interests which are dangerous for good
or evil. - J.M. Keynes, 1936.*

*One of the great mistakes is to judge policies and programs by their intentions rather than
their results - M. Friedman, 1975.*

Tentative Course Outline: Major Concepts and Reading Topics

I. Introduction to Economics

The Scope and Method of Economics: The role of models; theories, evidence, and policy advice; positive vs. normative statements; decision-making and the Cost-Benefit Principle. **Chapter 1, Appendix**

Demand, Supply, and Market Equilibrium: Households, firms, markets and the circular flow; the supply-and-demand model; market equilibrium and disequilibrium; price controls. **Chapter 3**

II. Data and Issues in Macroeconomics

National Output, Income, and Expenditure: Calculating GDP; the national income accounting identity; real vs. nominal quantities; limitations of GDP as a measure of economic well-being. **Chapter 4**

The Price Level and Inflation: The CPI and the GDP deflator; comparing dollar amounts for different times; costs of inflation; inflation and interest rates. **Chapter 5**

Unemployment: Measuring unemployment; costs and types of unemployment; unemployment in the classical labor market model. **Chapter 6 pp. 166-174**

III. The Macroeconomy in the Long-Run

Economic Growth: Compound growth; average labor productivity, the production function, and diminishing returns to capital; public policy and growth. **Chapter 7**

Saving, Investment, and the Financial System: National income accounting; government policy and budget deficits; saving and investment; the loanable funds model. **Chapter 8**

Money Supply and the Federal Reserve System: Money and its uses; commercial banks and the creation of money with fractional reserve banking; central banks and the money supply; banking crises. **Chapter 9; Chapter 12 pp. 332 - 336**

IV. The Macroeconomy in the Short-Run

Short-term Economic Fluctuations: Output, unemployment, and inflation over the business cycle; the output gap and Okun's Law. **Chapter 10**

Short-Run Spending, Output, and Fiscal Policy: The Keynesian model; the multiplier effect; fiscal policy and output gaps. **Chapter 11**

The Federal Reserve and Interest Rates: The money market model; monetary policy and output gaps; the zero lower bound problem. **Chapter 12**

Aggregate Demand and Aggregate Supply: The aggregate demand-aggregate supply (AD-AS) model and macroeconomic shocks; the self-correcting economy and the role for government. **Chapter 13**

Stabilization Policy in AD-AS: Fiscal and monetary stabilization policy effects in the short- and long-run; time lags and qualifications of stabilization policy. **Chapter 14**