

FB/CCU Macroeconomics Packet

FB/CCU Macroeconomics Prereq's:

- 1) "B" average overall GPA, as well as minimum "B" average in past high school math courses
- 2) Sign & Return (page 6 of this packet)

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A Course Description

The purpose of a college course in macroeconomics is to give students a thorough understanding of the principles of economics that apply to an economic system as a whole. Lessons include an analysis of national income and price-level determination, economic indicators, inflation and unemployment, money and banking, stabilization policies, economic growth, and U.S. and international economics.

Even as the number of independent nations in the world grows, we increasingly find nations more politically and economically interdependent. Economic policy decisions made in one country can drastically affect another. This global economy requires citizens in all countries to become better-informed decision makers.

The long-term goal of this course is to aid student understanding of economic concepts such as scarcity, opportunity costs, and trade-offs. This knowledge will provide a base for future decision-making. The short-term goal of this course is to aid student understanding of those concepts tested in the Advanced Placement Exam in Macroeconomics. Taking the AP Macroeconomics Exam and other AP Exams can translate into financial savings on your college education. The vast majority of colleges and universities in the United States, and many outside the United States, grant academic credit, advanced placement, or both, to incoming students with qualifying AP grades.

Textbook - DO NOT PURCHASE

Mankiw, N. Gregory. *Principles of Macroeconomics*, 5th ed., South-Western College Pub, 2008.

Workbooks – School will order and distribute these:

Dodge, Eric. *5 Steps to a 5: AP Macroeconomics 2017*, New York: McGraw-Hill.

Morton, John. *Advanced Placement Economics Macroeconomics Student Activities*, 4th ed., New York: National Council on Economic Education, 2003.

Suggested Winter Break Reading (No Summer Assignment):

Hayek, F.A. *The Road to Serfdom*, University of Chicago Press, 2007. (ISBN 0-226-32055-3)

Rourke. P.J. *On The Wealth of Nations*, Atlantic Monthly Press, 2007. (ISBN 0-87113-949-9)

Wheelan, Charles. *Naked Economics: Undressing the Dismal Science*, New York: W.W. Norton, 2002. (ISBN 0-393-32486-9)

Additional Readings

The *Wall Street Journal*, *The Economist*, as well as other current supplemental applicable readings.

Topics Covered in Macroeconomics:

I. Basic Economic Concepts (8-12%)

A macroeconomics course introduces students to fundamental economic concepts such as scarcity and opportunity costs. Students understand the distinction between absolute and comparative advantage, and apply the principle of comparative advantage to determine the basis on which mutually advantageous trade can take place between individuals and/or countries, and to identify comparative advantage from differences in opportunity costs. Other basic concepts that are explored include the functions performed by an economic system, and the way the tools of supply and demand are used to analyze the workings of a free market economy. The course should also introduce the concept of the business cycle to give students an overview of economic fluctuations and to highlight the dynamics of unemployment, inflation, and economic growth. Coverage of these concepts provides students with the foundation for a thorough understanding of macroeconomic concepts and issues.

II. Measurement of Economic Performance (12-16%)

To provide an overview of how the economy works, the course should start with a model of the circular flow of income and products that contains the four sectors: households, businesses, government, and international. It is important to identify and examine the key measures of economic performance: gross domestic product, unemployment, and inflation. In studying the concept of gross domestic product, it is also important that students learn how gross domestic product is measured, have a clear understanding of its components, and be able to distinguish between real and nominal gross domestic product. The course should examine the nature and causes of unemployment, the costs of unemployment, and how the unemployment rate is measured, including the criticisms associated with the measurement of the unemployment rate. It is also important to understand the concept of the natural rate of unemployment and the factors that affect it.

Students should also have an understanding of inflation and how it is measured. In this section, the course should cover the costs of inflation; the main price indices, such as the consumer price index (CPI) and the gross domestic product deflator. Students should learn how these indices are constructed and used to convert nominal values into real values, as well as to convert dollar values in the past to dollar values in the present. It is also important to highlight the differences between the two price indices as a measure of inflation, as well as the problems associated with each measure.

III. National Income and Price Determination (10-15%)

This section introduces the aggregate supply and aggregate demand model to explain the determination of equilibrium national output and the general price level, as well as to analyze and evaluate the effects of public policy. It is important to

discuss the aggregate demand and aggregate supply concepts individually to provide students a firm understanding of the mechanics of the aggregate demand and aggregate supply model. The aggregate demand and aggregate supply analysis often begins with a general discussion of the nature and shape of the aggregate demand and aggregate supply curves and the factors that affect them. A detailed study of aggregate demand may begin by defining the four components of aggregate demand: consumption, investment, government spending, and net exports. It also examines why the aggregate demand curve slopes downward and how changes in the determinants affect the aggregate demand curve. The spending-multiplier concept and its impact on aggregate demand, and how crowding out lessens this impact, should be demonstrated as well. The course can then present the definition and determinants of aggregate supply, the different views about the shape of the aggregate supply curve in the short run and in the long run, and highlight the importance of the shape in determining the effect of changes in aggregate demand on the economy. It is also important to understand the notion of sticky-price and sticky-wage models and their implication for the aggregate supply curve in comparison to flexible prices and wages. Students should be able to use the aggregate demand and aggregate supply model to determine equilibrium income and price level and to analyze the impact of economic fluctuations on the economy's output and price level, both in the short run and in the long run.

IV. Financial Sector (15-20%)

To understand how monetary policy works, students must understand the definitions of both the money supply and money demand and the factors that affect each of them. Here the course introduces students to the definition of money and other financial assets, such as bonds and stocks, the time value of money, measures of the money supply, fractional reserve banking, and the Federal Reserve System. In presenting the money supply, it is important to introduce the process of multiple-deposit expansion and money creation using T-accounts, and the use of the money multiplier. In learning about monetary policy, it is important to define money demand and examine its determinants. Having completed the study of money supply and money demand, the course should proceed to investigate how equilibrium in the money market

determines the equilibrium nominal interest rate. Using the investment demand curve, the students should establish the link between changes in the real interest rate and changes in aggregate demand and understand how changes in aggregate demand affect real output and price level. Students should have an understanding of financial markets and the working of the loanable funds market in determining the real interest rate. It is also important that students develop a clear understanding of the differences between the money market and the loanable funds market. Having an understanding of the financial markets, students should identify and examine the tools of central bank policy and their impact on the money supply and interest rate. Students should understand the distinction between nominal and real interest rates. Students should also be introduced to the quantity theory of money, and examine and understand the effect of monetary policy on real output growth and inflation.

V. Stabilization Policies (20-30%)

Public policy can affect the economy's output, price level, and level of employment, both in the short run and in the long run. Students should learn to analyze the impacts of fiscal policy and monetary policy on aggregate demand and on aggregate supply, as well as on the economy's output and price level, both in the short run and in the long run. It is also important to understand how an economy responds to a short-run shock and adjusts to long-run equilibrium in the absence of any public policy actions. With both monetary and fiscal policies now incorporated in the analysis of aggregate demand and aggregate supply, an understanding of the interactions between the two is essential. Students should also examine the economic effects of government budget deficits, including crowding out; consider the issues involved in determining the burden of the national debt; and explore the relationships between deficits, interest rates, and inflation. The course should distinguish between the short-run and long-run impacts of monetary and fiscal policies and trace the short-run and long-run effects of supply shocks. Short-run and long-run Phillips curves are introduced to help students gain an understanding of the inflation-unemployment trade-off and how this trade-off may differ in the short and long run. In this section, the course identifies the causes of inflation and illustrates them by using the aggregate demand and aggregate supply model. A well-rounded course also includes an examination of the significance of expectations, including inflationary expectations.

VI. Economic Growth (5-10%)

The course should introduce the concept and meaning of long-run economic growth and examine how economic growth occurs. Students should understand the role of productivity in raising real output and the standard of living, and the role of

investment in human capital formation and physical capital accumulation, research and development, and technical progress in promoting economic growth. Having learned the determinants of growth, students should examine how public policies influence the long-run economic growth of an economy.

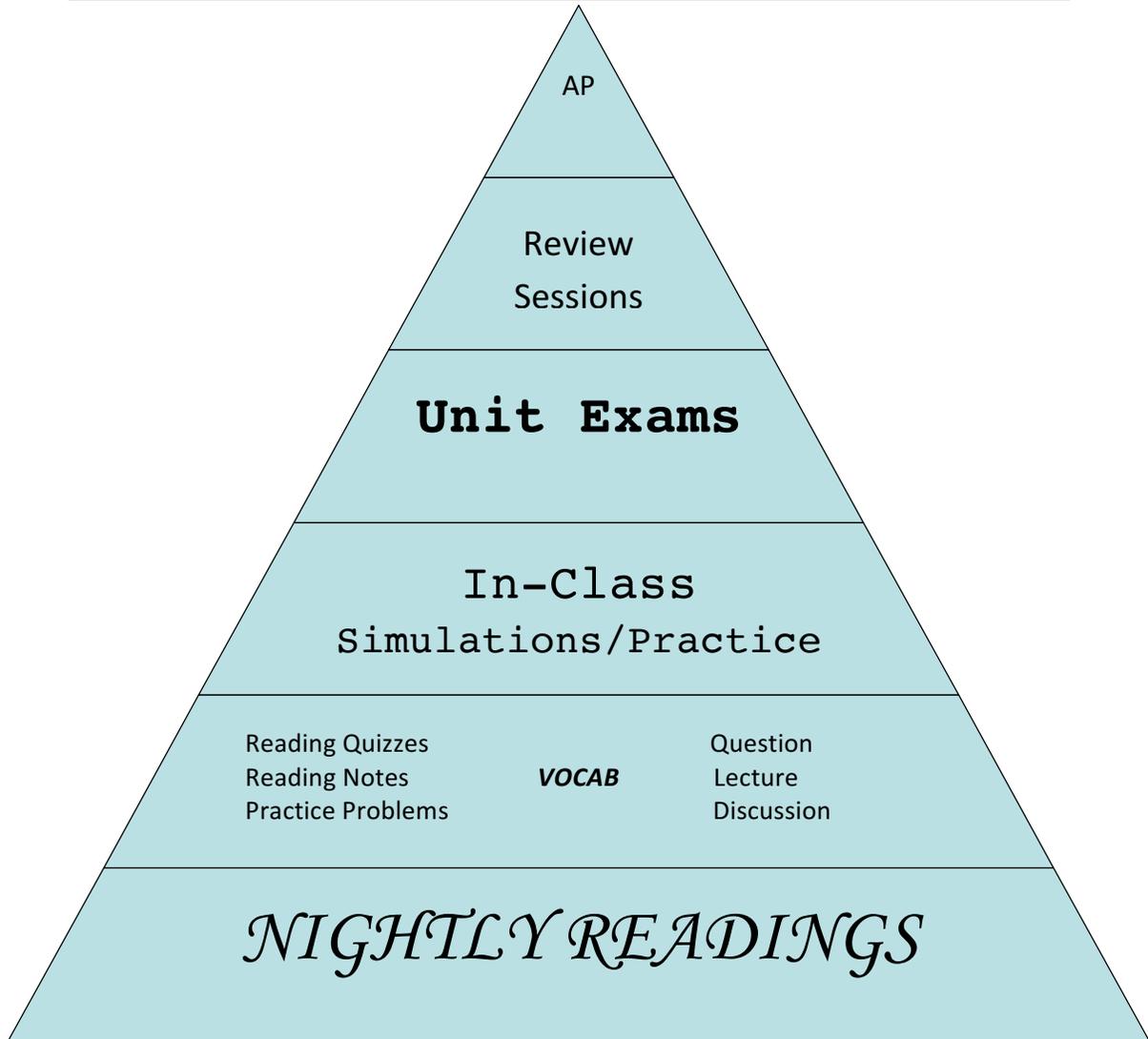
VII. Open Economy: International Trade and Finance (10-15%)

An open economy interacts with the rest of the world both through the goods market and the financial markets, and it is important to understand how a country's transactions with the rest of the world are recorded in the balance of payments

accounts. Students should understand the meaning of trade balance, the distinction between the current account balance and the financial account (formerly known as capital account) balance, and the implications for the foreign exchange market.

The course should also focus on the foreign exchange market and examine how the equilibrium exchange rate is determined. Students should understand how market forces and public policy affect currency demand and currency supply in the foreign exchange markets and lead to currency appreciation or depreciation. How financial capital flows affect exchange rates, and how appreciation or depreciation of a currency affects a country's exports and imports should be an integral part of the presentation. Having learned the mechanics of the foreign exchange markets, students should then understand how changes in net exports and financial capital flows affect financial and goods markets. It is important to examine what the effects of trade restrictions are, how the international payments system hinders or facilitates trade, how domestic policy actions affect international finance and trade, and how international exchange rates affect domestic policy goals.

The FB/CCU Macroeconomics
Pyramid of Success



RETURN THIS SHEET SIGNED

I verify, on my word of honor, that I have completely read the course description and that I fully comprehend that I will have to work hard in this class, and that enrolling in this class signifies that I have every intention of completing this course.

Student's Signature

Student's Name (Printed)