

Rutgers University
School of Business
Aggregate Economics
Fall 2010

Professor: Dr. Davood Taree
Email: dtaree@rbs.rutgers.edu
Office hours: Thursday: By appointment

Course Information:

Course Number: 591:41
Time: Thursday: 6:00-09:00 PM

This course examines the economy at the macro level in the long run, this would simplify learning Macroeconomics.

Attention is given to the concept of supply and demand, the nature and operation of market structures. Other topics include measuring the national income, production and growth, saving, investment, fiscal and monetary policies

Text Book: Karl E.Case, and Ray G.Fair, and Sharon M. Oster , Principles of Macroeconomics, ninth Edition, Pearson, Prentice Hall

-Students are asked to keep abreast of current economic news. Reading of the Wall Street Journal, the Financial Times, Economist, is highly recommended which may be a part of every class discussion.

Course requirements:

Final grades will be determined by your performance in the exams and the class participation based on the following grade distribution.

First Exam (Oct 7, 2010)		30%
Second Exam (Nov 4, 2010)		30%
Class attendance and participation		10%
Final Exam (TBA)		30%

There will be **NO** Make-up exam except for very special circumstances (A letter from the Dean is required). You will receive a grade of zero if you miss an exam.

It is expected that students attend all lectures. Anything covered in class including the materials beyond the text book is eligible for test material. No extra work will be given for additional credit.

Grading System:

90-100...A, 85-89...B+, 80-84...B, 75-79...C+, 70-74...C, 60-69...D, 59 & below... F

NO grades will be given by the e-mail.

Course Outline:

Given the facts that some of the students are taking this course without any prior knowledge of Economics, there will be a quick review of the introductory subjects covered in the first four chapters.

Chapter 1: The Scope and Method of Economics

- The Scope of Economics
- Introduction to the Mathematics of Economics
 - Graphs, Equations, etc.

Chapter 2: The Economic Problem: Scarcity and Choice

- Scarcity, Choice, and Opportunity Cost
 - Production Possibilities Frontier
- Types of Economics Systems
 - Comparative Advantage, Absolute Advantage, etc.

Chapter 3: Demand, Supply, and Market Equilibrium

- Firms and Households
 - Demand and Supply in Output Markets
 - Input Markets and Output Markets
 - Circular Flow
- Demand and Supply in Product Markets
 - Changes in Quantity Demanded vs. Changes in Demand
 - The Law of Supply
- Market Equilibrium

Chapter 4: Demand and Supply: Applications

- Allocation of Resources
 - Price Rationing
- Market Efficiency
 - Consumer Surplus
 - Producer Surplus
 - Potential Causes of Deadweight Loss

Chapter 5: Introduction to Macroeconomics

- Macroeconomic Concepts
 - Inflation, Deflation, Stagflation
 - Short-run and long-run growth
 - Unemployment
- Government Influence
 - Fiscal Policy, Monetary Policy, etc.
- Trends in 20th Century U.S. Economy
 - The Business Cycle
 - Trends in the U.S. Economy since 1970

Chapter 6: Measuring National Output and National Income

- Gross Domestic Product
 - Final Goods and Services
- Calculating GDP
 - The Expenditure Approach
 - The Income Approach
- Nominal vs. Real GDP
 - Calculating the Real GDP
 - Calculating the GDP Deflator

FIRST EXAM (Covers chapters 1, 2, 3, 4, 5 and 6)

Chapter 7: Unemployment, Inflation, and Long-Run Growth

- Defining and Measuring Unemployment
- The Costs of Unemployment
- The Benefits of Recessions
- Defining Inflation
- Price Indices
- Calculating Price Indices

Chapter 8: Aggregate Expenditure and Equilibrium Output

- Aggregate Output and Income
 - Income, Consumption, and Saving (Y, C, and S)
 - Planned Investment (I)
 - Planned Aggregate Expenditure (AE)
- Equilibrium Aggregate Outcome
 - Saving/Investment Approach to Equilibrium
 - Adjustment to Equilibrium
- The Multiplier
 - The Multiplier Equation
 - Examples of the Multiplier

Chapter 9: The Government and Fiscal Policy

- Government in the Economy
 - Government Purchases, Net Taxes, and Disposable Income
 - Equilibrium Output: $Y = C + I + G$
- Types of Multiplier
 - Government-Spending Multiplier
 - Tax Multiplier
 - Balanced-Budget Multiplier
- Federal Budget
 - The Budget
 - The Surplus/Deficit
 - The Debt

Homework # 1 (Ch. 6: 1, 3, 9, Ch. 7: 13; Ch. 8: 5, 7, Ch. 9: 1, 3, 11; Ch 10: 9, and 11, Ch 11: 5 and 9; Appendix: 1)

Chapter 10: The Money Supply and the Federal Reserve System

- Overview of Money
 - Definition of Money
 - Private Banking System
- Money Multiplier
- Federal Reserve System
 - Functions of the Federal Reserve
 - Required Reserve Ratio
 - Discount Rate
 - Supply Curve for Money

Chapter 11: Money Demand and Equilibrium Interest Rate

- Demand for Money
 - Total Demand for Money
- Equilibrium Interest Rate
 - Supply and Demand in the Money Market
 - Affect of Money Supply on Interest Rate
 - Shifts in the Money Demand Curve

Second EXAM (Covers Ch 7-11)

Chapter 12: Aggregate Demand in the Goods and Money market

- Planned Investment and Interest Rate
- Equilibrium in Both the Goods and Money Markets
- Aggregate Demand (AD) Curve
- Shifts of the Aggregate Demand Curve

Chapter 13: Aggregate Supply and the equilibrium Price Level, Aggregate Supply, and Inflation

- The Aggregate Supply Curve
 - Aggregate Supply in the Short Run
 - Shifts of the Short-Run Aggregate Supply Curve
- Causes of Inflation
 - Demand-Pull Inflation
 - Cost-Push (Supply-Side) Inflation
 - Money and Inflation

Chapter 14: The Labor Market, in the Macroeconomy

- Classical View of the Labor Market
 - Classical Labor Market and the Aggregate Supply Curve
 - Unemployment and the Classical View
- Reasons for Unemployment
 - Sticky Wages
 - Efficiency Wage Theory
 - Minimum Wage Laws
- Short-Run Relationship between Unemployment Rate and Inflation
 - The Phillips Curve (Explanation and History of): Long- and Short-Run
 - Aggregate Supply and Aggregate Demand Analysis and the Phillips Curve
 - Expectations and the Phillips Curve
- Long-Run Aggregate-Supply Curve, Potential GDP, and the Natural Rate of Unemployment

Chapter 15: Policy Timing, Deficit Targeting, and the Stock Market Effects

- Existence of Time Lags Regarding Monetary and Fiscal Policy
- Monetary Policy
 - Controlling the Interest Rate
 - Fed's Response
 - Targeting Inflation
- Fiscal Policy
 - Effects of Spending Cuts and Deficits
 - Economic Stability and Deficit Reduction

Homework # 2: (Ch 12: 5; Ch 13:5; **Ch 14:** 5, Ch 15:1 and 3

Chapter 18: Debate in Macroeconomics: Monetarism, and Supply-Side Economics

- Keynesian Economics
- Monetarism
 - Velocity of Money
 - Quantity Theory of Money ($MV = PQ$)
 - Keynesian/Monetarist Debate
- Supply-Side Economics
 - Laffer Curve
 - Evaluating Supply-Side Economics

Chapter 19: International Trade, Comparative Advantage, and Protectionism

- Economic Basis For Trade
 - Comparative Advantage
 - Absolute Advantage
 - Terms of Trade
 - Exchange Rates

Chapter 20: Open-Economy Macroeconomics: The Balance of Payments and Exchange Rates

- Balance of Payments
 - Current Account
 - Capital Account
- Equilibrium Output in an Open Economy
 - International Sector
 - Imports and Exports
 - Import and Export Prices
- Net Exports and Capital Flows
 - Open Economy with Flexible Exchange Rates
 - Market for Foreign Exchange
 - Effects of Foreign Exchange on Economy

FINAL EXAM (Covers chapters 12-15, and 18-20)