ECON8026 Diploma Macroeconomics

Course Outline

Delivery format:
- Lectures: –
- Tutorial: –


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Description

This course will acquaint students with contemporary issues and methods in macroeconomics. Key questions relating to long-term prospects for the wealth of nations, and, the short-term fluctuations in aggregate economic outcomes will be discussed. Questions relating to monetary phenomena, banking and systemic crisis in banking/finance will also be touched upon. In addressing these questions, we will need to develop some analytical tools, learn about some modern approaches to macroeconomic modelling, and appreciate the importance of empirical regularities in informing modelling. We will also discuss the relevance of some of these models toward informing macroeconomic policy and business decision making.

Broadly, this course will build on the models and lessons learned in a typical undergraduate macroeconomics course. We will reiterate the geometric approach to studying some simple economic models, and reinforce it further using basic probability theory, calculus and optimization techniques. The novelty of this course lies in the fact that most of the lessons to be drawn with involve variations around a single framework of the Allais-Samuelson-Diamond overlapping generations (OLG) model. This elegant framework allows us to get to the core of several (but not all) macroeconomic issues rigorously, without getting bogged down by more abstract technicalities. The approach in this course will build towards more sophisticated models in advanced courses such as ECON8022 Macroeconomic Theory and ECON8001 Topics in Economic Dynamics.

Learning Outcomes. A student completing the requirements of this course should be able to demonstrate the ability to:

- Understand key issues and questions in macroeconomics.
- Think about and solve current macroeconomic problems.
- Understand the connection between assumptions made and the conclusions drawn.
- Appreciate the shortcomings of models and to provide alternative improvements.
- Construct logical arguments and provide economic explanations consistent with the workings of the model used.
- Use analytical and (some) numerical methods in modeling.

¹This is to facilitate uniformly prompt feedback/reply from me.
Work independently, in teams, and to develop intellectual leadership.

**Proposed Assessment.** The following is a suggested assessment structure. Depending on the enrolment and student preference, we may take a vote on the official assessment structure.

- Individual Assignments (2): 35%.
- Group-based research project: 15%.
- End of semester examination: 50%

**Readings.** There are no set textbooks. Textbooks to be referred to include:


More advanced material (for the adventurous student):


Other readings:

- My own Notes; Articles; News and Interviews.

There is no need to acquire these books unless you have money to spare. Copies for reading will be made available from the Chifley Library closed reserve system.

**General information and codes of conduct.** Misconduct in the preparation and submission of written work and/or examinations for assessment will have serious consequences for a student. Consequences include failure of the course, receipt of a mark penalty or in some circumstances disciplinary proceedings and exclusion. For more information please refer to the following URL and its additional links:


Information about the policies, procedures and rules that relate to assessment, as well as information about the support services provided by the College of Business and Economics, and the ANU more generally, are posted at:


The links above constitute sufficient legal notice.

**Topics.** This list may be subject to change. For updates, please refer to the course lecture log on Wattle. The superscripted notation — $^g,f$ — refers to complementary geometric and more formal treatments of the model. Optional material is denoted by the superscripted-$t$ — $^t$ — if time permits.

- **Empirical Facts and Macroeconomic Questions:**
  - The so-called long run empirical regularities
  - The so-called short run empirical regularities
  - What are the interesting Questions?
  - How do we tackle these Questions?

- **Economic Growth – The Long Run Prospects of Nations:**
  - The Solow-Swan model (review)$^{g,f}$
Laboratory Experiment: Implementing algorithms to simulate the Solow-Swan model
Empirics revisited
The OLG model
OLG: Competitive Equilibrium, Pareto Efficiency and Incomplete Markets
Application: An OLG approach to growth with endogenous saving
Laboratory Experiment: Comparing the Solow-Swan and OLG growth dynamics
Application: Intergenerational public finance – Whither policy?
The dirty reality: Politics and growth.

The Short Run:
What are Business Cycles? How do we measure cycles?
Empirical regularities
Application: Hot-rodnding the OLG model. An OLG baby-step toward a micro-founded model of the business cycle.
Laboratory Experiment: Implementing algorithms to simulate cycles in the OLG model
Use with Caution ...

Monetary Phenomena:
What is Money? Why is trade/exchange sometimes not sustainable by IOUs or contractual claims?
A Simple OLG Model of Money
Inflation
The Phillips curve: Empirical regularity; Imperfection information and prices in Lucas’ OLG Model
Optimal Monetary Policy
International Monetary Systems: Model of International Exchange; Defending an Exchange Rate and Speculative Attacks

Banking and Systemic Risk:
Historical Observations
Deposits and Liquidity Insurance: An OLG approach
Stability of Banking System
Banks Runs and Renegotiations
Information, Moral Hazard and Banking Crisis

Special Tutorials. There will be special tutorials provided to introduce students to the computer as laboratory for performing analyses of model economies. We will be using the high-level (i.e. relatively easy) programming language of MATLAB.