Course Outline 2019
ECON711: MACROECONOMIC THEORY AND POLICY (15 POINTS)
Semester 1 (1193)

Course prescription
This course is the core macroeconomics course at the postgraduate level. It offers an introduction to the core analytical tools and concepts used in modern macroeconomics, and shows these are applied in policy settings. The focus will be on dynamic macroeconomic models and the nexus between macroeconomics and finance. Topics covered include rational expectations, consumption, asset pricing, the current account, and financial crises.

Course advice
Students are expected to have a sound knowledge of microeconomics and macroeconomics (ideally Econ 301 and Econ 311). In addition, students are expected to have some familiarity with the core mathematical tools in economics, including (static) optimization and concepts in game theory. Students will also benefit from exposure to first-year and second-year university mathematics courses.

Goals of the course
- To introduce and equip students with the tools needed for macroeconomic analysis at the graduate level.
- To introduce students to the workhorse models in macroeconomics and show how these are relevant to contemporary problems facing policymakers.
- To invoke interest in economics and to prepare students for the kinds of issues that they might confront as macroeconomists in the workforce.

Learning outcomes (LO)

<table>
<thead>
<tr>
<th>#</th>
<th>Learning outcome</th>
<th>Graduate profile capability*</th>
</tr>
</thead>
<tbody>
<tr>
<td>LO1</td>
<td>Understand the rational expectations approach to macroeconomics and simple</td>
<td>1. Disciplinary knowledge and practice</td>
</tr>
<tr>
<td></td>
<td>dynamic macroeconomic models.</td>
<td>2. Critical thinking</td>
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<td></td>
<td></td>
<td>3. Solution seeking</td>
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<td></td>
<td></td>
<td>4b. Communication (Written)</td>
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<tr>
<td>LO2</td>
<td>Apply the canonical model of intertemporal optimisation to critically understand</td>
<td>1. Disciplinary knowledge and practice</td>
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<td>key issues in</td>
<td>2. Critical thinking</td>
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<th>#</th>
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<tbody>
<tr>
<td></td>
<td>macroeconomics, e.g. consumption, asset pricing.</td>
<td>3. Solution seeking</td>
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<tr>
<td></td>
<td></td>
<td>4b. Communication (Written)</td>
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<tr>
<td>LO3</td>
<td>Understand how the analytical frameworks developed in modern macroeconomics shape policy discourse in central banks and ministries of finance.</td>
<td>1. Disciplinary knowledge and practice</td>
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<td></td>
<td></td>
<td>2. Critical thinking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Solution seeking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4b. Communication (Written)</td>
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<tr>
<td></td>
<td></td>
<td>5a. Independence</td>
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<td></td>
<td></td>
<td>5b. Integrity</td>
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<tr>
<td>LO4</td>
<td>Understand the determinants of, and relationships between, different macroeconomic and financial variables.</td>
<td>1. Disciplinary knowledge and practice</td>
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<td></td>
<td>2. Critical thinking</td>
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<tr>
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<td></td>
<td>4b. Communication (Written)</td>
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<tr>
<td>LO5</td>
<td>Critically assess the effect of government policy on macroeconomic outcomes.</td>
<td>1. Disciplinary knowledge and practice</td>
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<td></td>
<td>2. Critical thinking</td>
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<tr>
<td></td>
<td></td>
<td>3. Solution seeking</td>
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<tr>
<td></td>
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<td>4b. Communication (Written)</td>
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<td></td>
<td></td>
<td>5a. Independence</td>
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<td></td>
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<td>5b. Integrity</td>
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</tbody>
</table>

* See the graduate profile this course belongs to at the end of this course outline.
Content outline

There are two parts to the course. The first part will introduce students to dynamic macroeconomic models. The second part will focus on money, crises, and banking. The following outline is provisional – some topics may take more or less time to cover.

<table>
<thead>
<tr>
<th>Week / Module</th>
<th>Topic</th>
<th>Relevant learning resources/activities</th>
<th>Assessment due this period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic 1 (weeks 1-2)</td>
<td>Rational Expectations and the Macroeconomy</td>
<td>Lucas islands model; Dynamic IS-LM; Dornbusch model; Cagan’s model of hyper-inflation (Romer, Chapter 6; Obstfeld and Rogoff, Chapters 8,9; lecture notes)</td>
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</tr>
<tr>
<td>Topic 2 (weeks 3-5)</td>
<td>The Canonical Intertemporal Optimising Model and Applications</td>
<td>The inter-temporal approach to optimisation; consumption; current account; asset pricing; Ramsey model; continuous and discrete time optimisation methods. (Obstfeld and Rogoff, Chapters 1, 2; Romer Chapter 2; lecture notes)</td>
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<tr>
<td>Week 6</td>
<td>In-class Test</td>
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<tr>
<td>Topic 3 (week 7-9)</td>
<td>Time inconsistency; Currency and Banking Crises</td>
<td>Barro-Gordon model; First-Second-Third generation currency crisis models; Bank runs (Obstfeld and Rogoff Chapters 8 and 9; lecture notes)</td>
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</tr>
<tr>
<td>Topic 4 (week 10-11)</td>
<td>Models of Money</td>
<td>Money-in-the-utility function; search models of money. (Blanchard and Fischer, Chapter 5; lecture notes)</td>
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<tr>
<td>Topic 5 (week 12)</td>
<td>Review</td>
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Learning and teaching

The course will be taught in the first semester. There will be 1 three-hour lecture per week. Outside of this, students are most welcome to contact the lecturer (individually or in groups) to discuss any material they feel unsure of.

Teaching staff

Professor Prasanna Gai
677 Owen G. Glenn Building
09 923 8310
p.gai@auckland.ac.nz

Learning resources

There is no set text. My lecture notes (which will be posted up following the lecture) will serve as a useful starting point for further reading. Students are, however, expected to read further (e.g. see the recommended books below and, in some cases, the original journal articles).

Recommended Reading:


Assessment information

<table>
<thead>
<tr>
<th>Assessment task</th>
<th>Weight %</th>
<th>Group and/or individual</th>
<th>Submission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-term Test</td>
<td>30%</td>
<td>Individual</td>
<td>Exam Conditions</td>
</tr>
<tr>
<td>Final Examination</td>
<td>70%</td>
<td>Individual</td>
<td>Exam Conditions</td>
</tr>
</tbody>
</table>

Pass requirements

Plussage applies: The Final Grade will be the better of

EITHER:

(i) Test mark/30 + Final Exam mark/70

OR:

(ii) Final Exam mark/100

There is no requirement to qualify for plussage by achieving any specific mark in the test. The above formula will be applied to all students and the final grade will be determined by the highest mark obtained using the plussage rule stated above. The
dates for the term test will be announced at the beginning of the semester. Information about final exam date will be available via SSO.

**Description of assessment tasks**

<table>
<thead>
<tr>
<th>Assessment task</th>
<th>Learning outcome to be assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-term Test</td>
<td>1-2</td>
</tr>
<tr>
<td>Final Examination</td>
<td>1-5</td>
</tr>
</tbody>
</table>

**Inclusive learning**

Students are urged to discuss privately any impairment-related requirements face-to-face and/or in written form with the courses convenor/lecturer and/or tutor.

**Academic integrity**

The University of Auckland will not tolerate cheating, or assisting others to cheat, and views cheating in coursework as a serious academic offence. The work that a student submits for grading must be the student’s own work, reflecting his or her learning. Where work from other sources is used, it must be properly acknowledged and referenced. This requirement also applies to sources on the worldwide web. A student’s assessed work may be reviewed against electronic source material using computerised detection to provide an electronic version of their work for computerised review.

**Student feedback**

Students will be requested to provide feedback to Class Representatives for Student Staff Consultative Committee Meetings.

Students will be requested to participate in the SET course and teacher evaluations.

**In the event of an unexpected disruption**

We undertake to maintain the continuity and standard of teaching and learning in all your courses throughout the year. If there are unexpected disruptions, the University has contingency plans to ensure that access to your course continues and your assessment is fair, and not compromised. Some adjustments may need to be made in emergencies. In the event of a disruption, the University and your course coordinators will make every effort to provide you with up to date information via Canvas and the University website.

**Graduate profile for BCom (Economics)**

The following six themes represent the capabilities that the Business School seeks to foster in all of its graduates. The development of these capabilities does not come all at once, but rather is expected to build from year to year. Each course is not expected to contribute to all capabilities, but each course will have its own goals and learning outcomes that relate to the overall development of this profile.

1) **DISCIPLINARY KNOWLEDGE AND PRACTICE** - Graduates will be able to demonstrate and apply a breadth of knowledge across disciplines, as well as specialist knowledge within one or more of them, while recognising the relevancy of this knowledge within a global context.
Disciplinary knowledge and practice

2) CRITICAL THINKING - Graduates will be able to analyse and critique theory and practice to develop well-reasoned arguments
   Critical thinking

3) SOLUTION SEEKING - Graduates will be able to identify and frame problems using analytical skills to create and evaluate innovative solutions.
   Solution seeking
   Quantitative reasoning

4) COMMUNICATION AND ENGAGEMENT - Graduates will be able to collaborate and communicate effectively in diverse business contexts using multiple formats.
   Oral communication
   Written communication
   Engagement

5) INDEPENDENCE AND INTEGRITY - Graduates will be able to respond professionally and ethically, demonstrating a capacity for independent thought and learning.
   Independence
   Integrity

6) SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES - Graduates will recognise the significance of the principles underpinning the Treaty of Waitangi and consider their obligations in relation to sustainability, whilst displaying constructive approaches to diversity.
   Social responsibility
   Environmental responsibilities