

ECN 316/ 512

UNIVERSITY OF DETROIT MERCY
Analysis of Economic Conditions

Sept.-Dec., 2004

TEACHER: JAMES MOSBY
OFFICE: BRIGGS 317
TELEPHONE: 993-1096 mosbyjb@udmercy.edu
OFFICE HRS: 12:45-2:00 (T,R) and BY APPOINTMENT

TEXT: Rudiger Dornbusch, Stanley Fischer, and Richard Startz, Macroeconomics, 9th Edition, 2004
Suggested: Robert E. Rubin, In an Uncertain World: Tough Choices from Wall Street to Washington, 2003
www.bloomberg.com (Real time financial news)

In economics we study the use of society's resources-land, labor, capital (machinery), and entrepreneurial ability. Microeconomics is the study of efficient allocation of the resources. In Macroeconomics, this course, we are concerned with full utilization or full employment of these resources (particularly, the labor resource) under non-inflationary conditions. Within this framework, we will study the effect of the economic condition on culture, both domestic and international, with special emphasis on policy implications.

Robert E. Rubin, Secretary of the Treasury in the second Clinton Administration, considers the difference between decision making in the private and public sectors (In an Uncertain World, 2003): "...In business, the single, overriding purpose is to make a profit. Government, on the other hand, deals with a vast number of legitimate and often competing objectives-for example, energy production versus environmental protection, or safety regulations versus productivity. This complexity of goals brings a corresponding complexity of process...And, finally, all important decisions-and even many less important ones-are made with an awareness of how they will be presented in the media."

As we move through the selected parts of the text, the instructor will assign a comprehensive set of study questions found at the end of each chapter. Prior to the examinations, you will be provided the answers to the study questions. The examinations will be based on these review questions and the lecture material. The course will focus on

1. FOUNDATIONS OF MACROECONOMIC ANALYSIS:
Income Determination
2. THE ROLE OF GOVERNMENT IN THE ECONOMY:
Introduction to Economic Policy
3. THE ECONOMICS OF THE NEW WORLD ORDER:
The International Linkages
4. THE NATURE OF THE MONETARY SYSTEM:
The Fed and the Financial System
5. ANALYSIS OF CONSUMPTION & INVESTMENT SPENDING:
Effects of expectations, leverage,...

Topics and Reading Assignments

I. Foundations

National Income Accounting, Income Determination, General Equilibrium, and the Efficacy of Government

Chapter 1 Introduction

Chapter 2 and Study Questions, pp.47-48; Conceptual 1-5,8 & Technical 3,4

Chapter 9 and pp. 236-238; C 1-5 & T 1-5

Chapter 10 and pp. 266-267; C 1-5 & T 1-7

Chapter 11 and pp. 296-297; C 1,3,4,5 & T 1,2,4

Chapter 8 and p. 209; C 2-7

Amartya Sen, "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory", Philosophy & Public Affairs, Summer 1977, 6(4), 317-344.

Gary S. Becker, "Nobel Lecture: The Economic Way of Looking at Behavior", Journal of Political Economy, June 1993, 101(3), pp. 385-409.

* * Midterm Objective Examination

II. Transitions

International Linkages and Aggregate Supply & Aggregate Demand

Chapters 12 and pp. 329-331; C 1,3,8,9 & T 1-5

Chapter 5 and pp. 109-110; C 1-5 & T 2

III. Behavioral Refinements and Applications

a) The Fed, Money, and Credit

Chapter 16 and p. 432; C 1,3,4-6 & T 1,2

b) Some Determinants of Consumption and Investment Spending

Chapters 13,14 and pp. 387-388; C 2,3,6,7,8 & T 2,3

c) Financial Markets, Stabilization Policy, and Unemployment & Inflation

Chapters 7,17,17,18,20 (Some of these chapters will be partially covered.)

d) Income Distribution and Behavioral Macroeconomics

Forrest McDonald, Alexander Hamilton, A Biography, 1979, Ch.VII "The Financial Dilemma; Ch. VIII "Funding and Assumption"; and Ch. IX "The Mint, the Excise, and the Bank.

John Kenneth Galbraith, Money-Whence it came, Where it went, 1995, Ch.4, "*The Bank*"; Ch.5 "Of Paper"; and Ch.6 "An Instrument of Revolution" .

George A. Akerloff, "Behavioral Macroeconomics and Macroeconomic Behavior", American Economic Review, June 2002, 92(3), pp. 411-433.

Peter G. Peterson, Running on Empty, 2004, Chapter 9, "How We Can Rebuild Our Future".

** Final Objective Examination

The final grade will be based on a weighted average of your performance on the two examinations with 50% to your higher score and 40% to your lower score. Students will also work on a team project which will contribute the remaining 10 percent.

WEEK ENDING

- 9/10/04 Review of Microeconomics-Business Enterprise and Public Policy, Foundations of Macroeconomic Analysis
- 9/17/04 A Brief History of Economic Time, National Income Accounting
- 9/24/04 National Income Accounting cont'd, Income Determination
- 10/01/04 Multiplier Effects, The Role of Government in the Economy
- 10/08/04 Nature and Significance of Federal Deficits
- 10/15/04 The General Equilibrium Model
- 10/22/04 Mid-term Examination (Graduate students will take a more in-depth examination)
- 10/29/04 General Equilibrium Model, cont'd
- 11/05/04 Policy Mix
- 11/12/04 Financial Markets and the Economy, the Keynesian/Classical Debate
- 11/19/04 International Linkages, The Federal Reserve and the Financial System
- 11/26/04 Balance of Payments, Exchange Rates and Policy Mix, Consumption Spending - Behavioral Foundations
- 12/03/04 Capital Investment Analysis - Net Present Value, Research Methods, and the Payout Period
- 12/10/04 Income Distribution and Behavioral Macroeconomics

Final Exam Week December 13-18, 2004