

SAULT COLLEGE OF APPLIED ARTS & TECHNOLOGY

SAULT STE. MARIE, ONTARIO

COURSE OUTLINE

Course Title:- INTRODUCTION TO MACROECONOMICS

Code No.:- ECN 104

Program:- ACCTING/BUS./GEN.ED.

Semester:- THREE

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INTRODUCTION:

Economics is an interesting, newsworthy and sometimes contentious subject which is very relevant to all of us, in every walk of life. No other subject affects us as much in our daily lives as we engage in various activities to earn a living and enjoy life.

This course is designed to provide the student with the knowledge of the basic economic terms and concepts as they apply to the contemporary economy and economic problems of Canada.

While economics is sometimes complex, it is not difficult and this course will attempt to discuss this subject in a relevant and interesting manner.

GENERAL OBJECTIVES:

1. To introduce students to basic economic terms and concepts.
2. To define the concepts of supply and demand and examine the role they play in determining market prices.
3. To provide students with the knowledge of consumption, savings and investment, and their significance in economic activity.
4. To examine the major Macroeconomic goals and the role the government plays in attempting to achieve these goals.
5. To examine economic instability and the "multiplier effect."
6. To discuss how the government may use fiscal policy and monetary policy in an attempt to influence economic activity.
7. To explain in some detail, inflation, its causes, policies to control inflation and the problem of stagflation.
8. To explore other Macroeconomic topics such as unemployment and its causes, demand and supply shifters, Classical and Keynesian views of Macroeconomics, etc.
9. To provide students with the knowledge of some of Canada's current economic problems in order that the students may draw their own conclusions concerning the problems and possible solutions.

GENERAL EDUCATION REQUIREMENTS

This course meets the general education criteria as follows:

Duration:

This course is three hours per week for 16 weeks.

Meeting Societal Challenges:

This course will contribute to the student becoming an informed citizen as the material will examine a number of important economic issues. Some of these issues will include unemployment, inflation, scarce resources, supply & demand, and the role of government in the economy.

Student's personal growth will be enhanced in the following ways:

- a. Students will be encouraged to listen to the broadcast media and read newspapers, etc. for economic and business news.
- b. Students will be given opportunities to discuss current economic issues along with the theory. This will enable them to share and discuss different points of view.
- c. Assignments and discussions will help students develop skills in problem solving, decision making and critical thinking.

Historical, Theoretical, & Contemporary:

a. Historical Context - This course will examine the development of economic concepts focussing on those of Adam Smith and John Maynard Keynes. It will also look at the role of government in the past, economic progress, past recessions/depressions, the origin of commercial banking, the founding of the Bank of Canada, and the barter system.

b. Theoretical Basis - In addition to the basic economic terms, this course will include the Classical and Keynesian theories of aggregate supply and aggregate demand, equilibrium, and economic adjustments. It will also examine more contemporary theories of monetary and fiscal policies, unemployment and inflation.

c. Application to Contemporary Life - Current economic issues such as unemployment, inflation, taxation, free trade, etc. will be discussed to help students understand the application and relevance of the economic theory. Students will be required to read, listen, and watch news items to enhance this process.

Support Continuous Learning:

Economics is not an exact science. It, therefore, does not always provide a clear and definite answer. This will help students develop critical thinking and problem solving skills as they examine and discuss various alternatives. Communication skills will also be developed as the students express their views related to the economic theory and contemporary issues. These skill may be used in other areas of study and in the students' daily lives.

Evaluation & Teaching Methods:

The course material may be covered in a variety of methods including readings, lectures, discussions, case studies, and group work, if appropriate. Evaluation will include assignments, quizzes, and tests. The quizzes and tests will be essay and objective type instruments.

CSAC Goals:

- a. Civic Life - this course will help develop an understanding of the difficult role the government plays in the economy. It will include material on the major economic goals, monetary and fiscal policies and the political aspects of economics.

- b. Personal Development - knowledge and application of basic economic theory can assist an individual in achieving a standard of well-being and provide useful information related to financial planning. This course will also assist students in becoming more aware and understanding various events which occur nationally and internationally.

- c. Social Understanding - many of the social problems we face in Canada are economic problems. This course will focus on some of these problems and help students draw some conclusions with regard to a better understanding of these problems and possible solutions.

- d. Work and the Economy - this course contains elements involving social and cultural attitudes towards work and the changing nature of work and the economy. Specific content in this area will include government and the economy, changes in employment, free trade, paid and unpaid labour, etc.

Broad Contexts:

This course is offered at an introductory, general level and will be of interest and benefit to all students. Whether we like it or not, all of us, regardless of occupation, income level, sex, etc. are involved in the economy. We are required to make many economic decisions, and we are affected by economic decisions of others.

METHODOLOGY:

A variety of methods may be employed to cover the course content. These may include lecture, assignments, discussion and study groups, depending on the size of the class and the commitment and involvement of the students. Students will be required to read and understand the relevant chapters of the textbook and other assigned readings.

Student projects and/or other assignments may also be required.

Learning Outcomes and Elements of Performance

Upon Successful completion of this course, the student should be able to:

1. Explain various Economic Problems and Economic Goals.

Possible Elements of Performance:

- * List and explain five major economic goals
- * Describe, in broad terms, what has happened to Canadian unemployment, inflation, growth, and the distribution of income in recent years
- * Explain why it is harder to identify the problems created by inflation than those created by unemployment
- * Distinguish the views of Adam Smith and John Maynard Keynes with respect to the role of government in the economy
- * Distinguish between allocative efficiency and technological efficiency
- * Describe how changes in relative prices may contribute to allocative efficiency
- * Explain the distinction between equity and equal
- * Explain how some goals can be complementary, while others are in conflict
- * Provide a complete explanation of the related economic terms
- * Demonstrate proficiency in preparing and reading graphs

2. Discuss the elements of the Basic Economic Problem.

Possible Elements of Performance:

- * Explain, in detail, the basic economic problem
- * Discuss the three major factors of production
- * Explain the difference between real capital and financial capital and between real investment and financial investment
- * Explain the roles played by the entrepreneur
- * Distinguish between opportunity costs and direct cost and be able to determine both
- * Draw and use a production possibility curve (PPC) and explain what the curve shows
- * Explain why the PPC slopes downward to the right and why it may be a straight line or bowed outward from the point of origin
- * Explain why production occurs within the PPC if there is large-scale unemployment
- * Discuss what factors will cause the PPC to increase
- * Distinguish between positive economics and normative economics
- * Provide a complete explanation of the related economic terms

3. Discuss the concepts of Specialization, Exchange, and Money and explain their inter-relationship.

Possible Elements of Performance:

- * Explain why specialization and exchange go hand in hand
- * Discuss exchange with barter and exchange with money
- * Explain Gresham's Law and provide an example
- * Explain the difference between absolute advantage and comparative advantage
- * discuss why economies of scale may lead to substantial gains from freer international trade, especially for small countries
- * Provide a complete explanation of the related economic terms

4. Demonstrate an understanding of different Economic Systems and apply the principles of the Market Mechanism (Supply and Demand).

Possible Elements of Performance:

- * Distinguish between capitalist (free market) economies and Marxist economies
- * Explain what is meant by the market mechanism
- * Discuss the characteristics of Perfectly Competitive and Imperfectly Competitive markets
- * Define the term "demand curve" and explain why it slopes downward
- * Define the term "supply curve" and explain why it slopes upward
- * Explain the concept of market equilibrium
- * Describe the forces that will cause a price that begins away from equilibrium to adjust to its equilibrium level
- * List and explain the factors which can shift the demand curve
- * List and explain the factors which shift the supply curve
- * Distinguish between normal and inferior goods
- * Give one example each of two goods that are (1) substitutes in use, (2) complements in use, (3) substitutes in production, and (4) complements in production. In each case explain why they fit into the category
- * Distinguish between the terms "change in quantity demanded" and "change in demand"
- * Distinguish between the terms "change in quantity supplied" and "change in supply"
- * Provide a complete explanation of the related economic terms

5. Discuss the role of Government in a Market Economy.

Possible Elements of Performance:

- * Discuss the four ways in which the government affects the economy
- * Describe the major programs of the three major levels of government
- * Explain the difference between government spending for goods and services, and transfer payments
- * Explain the difference between a progressive and a regressive tax, and give an example of each
- * Discuss the five major reasons for government intervention in the Canadian economy
- * Explain the role and significance of Crown corporations in the Canadian economy
- * Explain the objectives that should be kept in mind when designing a tax system
- * Explain the difference between the benefit principle and the ability to pay principle
- * Describe the major elements of Canada's federal tax reform initiated in 1989
- * Provide a complete explanation of the related economic terms

6. Identify some of the indicators of Economic Performance and be able to discuss and calculate Gross Domestic Product.

Possible Elements of Performance:

- * State the relationship between gross investment, net investment, depreciation and the change in the stock of capital
- * State the difference between GDP and NDP, and between GDP and GNP
- * State the relationship Nominal GDP, Real GDP, and the GDP deflator
- * Explain why the GDP deflator is not exactly the same as the Consumer Price Index
- * Explain why the Real GDP is a better measure than the Nominal GDP, of how we are doing
- * Explain why it is so hard to calculate a more comprehensive measure of economic welfare
- * Explain why the “underground economy” exists, why its size may have increased in recent years, and why this is of concern to economists
- * Discuss in detail the Consumer Price Index and be able to calculate the CPI and Inflation
- * Provide a complete explanation of the related economic terms

7. Discuss fluctuations in Economic Activity, in particular, Business Cycles and Unemployment.

Possible Elements of Performance:

- * Describe the four phases of the business cycle
- * Discuss the major features of the Great Depression of the 1930s
- * Explain the major features of recent business cycles – for example, what happens to profits, investment, and the purchase of consumer durable goods during recessions
- * Explain how the unemployment rate is calculated
- * Explain why the unemployment rate may understate the problem of unemployment during a recession
- * Explain why the productivity of labour is adversely affected by recessions
- * List and explain five major types of unemployment, and what action, if any, the Government should take to reduce each type
- * Explain potential GDP and the GDP gap
- * Provide a complete explanation of the related economic terms

8. Explain the relationship of Unemployment and Inflation with regard to Aggregate Supply and Aggregate Demand.

Possible Elements of Performance:

- * Define the macroeconomic concepts of aggregate demand and aggregate supply
- * Distinguish between demand and supply curves as developed in microeconomics and the aggregate demand and supply curves used in macroeconomics
- * Explain why we should not just assume that aggregate demand and supply curves look like demand and supply curves for an individual product
- * Explain why the classic aggregate demand curve slopes downward to the right
- * Explain why classical economists drew the aggregate supply curve as a vertical line
- * Explain why the short-run Keynesian aggregate supply curve is drawn as an upward-sloping curve but with a horizontal section
- * List the for major components of aggregate demand that Keynesians consider in detail to determine what is happening to aggregate demand as a whole
- * Explain why classical economists believe that equilibrium would occur at full employment, while Keynesian economists believed that equilibrium might occur either at full employment or with large-scale unemployment
- * Summarize how classical economists explained the Great Depression of the 1930s
- * Summarize the three major propositions in Keynes' General Theory, including his major policy conclusion
- * Summarize the major points of agreement between Keynesian and those in the Classical tradition, and the major points of disagreement
- * Provide a complete explanation of the related economic terms

9. Discuss the Keynesian Approach to the Basic Model of Aggregate Demand and be able to perform the related calculations.

Possible Elements of Performance:

- * Explain the factors which influence consumer spending and identify the most important One
- * Explain what the Marginal Propensity to Consumer (MPC) is, and why it is the same as The slope of the consumption function
- * Derive the savings function from the consumption function
- * Explain the relationship between the MPC and MPS
- * Explain why equilibrium domestic product is found where the aggregate expenditure function cuts the 45 degree line
- * Distinguish between actual investment and desired investment

- * Explain the significance of undesired inventory changes in the determination of equilibrium domestic product
- * Explain what will happen if domestic product is greater than or less than the equilibrium quantity
- * Explain the difference between a leakage and an injection, and give an illustration of each
- * Express the equilibrium condition for domestic product in three different ways and explain why these three different statements amount to the same thing
- * Explain why there may be large-scale unemployment when the economy is in equilibrium
- * Explain why an increase in investment has a multiplier effect on aggregate expenditures and domestic product
- * Write the two equations for the multiplier in the simple economy with no taxes or international trade
- * Calculate changes in GDP as a result of changes in leakages and injections and other related calculations
- * Provide a complete explanation of the related economic terms

10. Demonstrate the effects of Fiscal Policy and Foreign Trade on Aggregate Demand and perform the related calculations.

Possible Elements of Performance:

- * Define the terms “recessionary gap” and “inflationary gap”.
- * Explain how an increase in government expenditures by the amount of the recessionary gap will bring the economy to full employment
- * Explain what is meant by a “budget deficit”, “budget surplus”, and “balanced budget”
- * Distinguish between a lump-sum tax and a proportional tax and their impact on the economy
- * Explain why reduction in lump-sum taxes or a cut in tax rates causes an increase in aggregate expenditures
- * Explain why a \$100 change in government spending can have a more powerful effect on equilibrium domestic product than a \$100 change in taxes
- * Explain why an increase in tax rates causes the aggregate expenditure function to become flatter, thereby decreasing the size of the multiplier
- * Explain how an increase in exports causes an increase in aggregate expenditures
- * Discuss how aggregate expenditures and the multiplier are influenced by the leakage into imports

- * Define automatic stabilizers, give examples of them, and explain how they act to stabilize the economy
- * Explain why the government may destabilize the economy if it attempts to balance the budget every year
- * Discuss why a large and growing domestic debt can be a problem
- * Provide a complete explanation of the related economic terms

11. Explain the origins, Characteristics, and Functions of Money and the Banking System (Deposit Taking Institutions).

Possible Elements of Performance:

- * Describe the four characteristics of money
- * Discuss the three basic functions of money
- * Explain the different measurements of money
- * List the functions of the Bank of Canada
- * Explain the relationship between the chartered banks and the Bank of Canada
- * Explain why a bank might want to hold only fractional reserves, rather than reserves equal to 100% of its deposit liabilities
- * Explain why fractional-reserve banking leads to the risk of a bank run, and why no bank can withstand a severe run without outside help
- * Distinguish between required reserves, target reserves, and excess reserves
- * Explain in detail how an individual bank responds to an increase in its reserves, and how the overall banking system can increase money by a multiple of the increase in reserves
- * State the formula for the deposit multiplier
- * Calculate the change in the money supply as reserves are changed
- * Give two reasons that the actual expansion of deposits is likely to be less than indicated by the deposit multiplier formula
- * Provide a complete explanation of the related economic terms

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12. **Discuss the origins and functions of the Bank of Canada and explain the uses of the Monetary Tools to increase and decrease the Money Supply and the impact on the Economy.**

Possible Elements of Performance:

- * Describe the origins and organization of the Bank of Canada
- * Describe how the Bank of Canada can use each of its major monetary tools to affect the size of the money stock
- * Explain what open market operations are and how they can increase and decrease the money supply
- * Provide an example which shows why the yield (interest rate) on a Treasury Bill falls when its price rises
- * Discuss why government sponsored deposit insurance reduces the risk of a run on banks
- * Discuss the Canada Deposit Insurance Corporation (CDIC)
- * Provide a complete explanation of the related economic terms

EVALUATION & MARKING SCHEME:

Students will be evaluated on the following basis:

- Projects, assignments, & quizzes	25%
- First test	20%
- Second test	25%
- Final test (semester work)	30%
TOTAL	<hr/> 100%

TESTS:

All tests will consist primarily of essay questions. Some multiple choice questions (or other objective type questions) may be used to complement and extend the test areas. Dates of the tests will be announced approximately one week in advance. Students are required to take the tests as scheduled.

If a student is not able to write a test because of illness, or a legitimate emergency, that student must contact the professor prior to the test and provide an explanation which is acceptable to the professor. (Medical certificates or other appropriate proof may be required.) Following the student's return to the college, he/she must request, in writing, to make up for the missed test. This request will be in proper letter form and outline the reasons for requesting special considerations. Making such a request does not guarantee that the student will receive permission to make up for the missed test. The professor will consider the request, and if permission is granted, the test will be given at the end of the semester, or at some other time at the professor's convenience. This is to allow time for the student to prepare for the test without missing important work and to allow time for the professor to prepare a new test.

Such requests must be made within one week of returning to the College. In considering the request, the professor will take a number of factors into consideration. These will include, but not limited to, the student's attendance, completion of all other quizzes, tests, assignments, etc. and the likelihood of the student being successful.

In all other cases, the student will receive a mark of zero for that test.

THERE WILL BE NO REWRITES OF INDIVIDUAL TESTS.

QUIZZES:

Quizzes may, or may not, be announced in advance. If a student misses a quiz, he/she will receive a zero for that quiz. No make-up quizzes will be given. Consideration may be given to students who miss a quiz but who made some arrangements in advance.

Final Grade:

The final grade will be based on the following scale:

- 90% and more	"A+"
- 80% to 89%	"A"
- 70% to 79%	"B"
- 60% to 69%	"C"
- 59% or less	"R"

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Each student must meet the following requirements in order to complete this course successfully:

1. Must complete, in a fashion acceptable to the professor, all projects and other assignments.
2. Must write two tests and the final exam. If a student misses a test, or the final exam, and has not made appropriate arrangements as above, he/she will receive a mark of zero for that test/exam.
3. Must have an overall mark of 60%. This mark includes all work in the semester.

Students who are not successful in achieving the minimum mark of 60% and/or do not complete the required assignments in an acceptable fashion, as they are due, will repeat the course.

THERE WILL BE NO SUPPLEMENTARY TESTS.

FINAL GRADES WILL BE ISSUED BY THE REGISTRAR'S OFFICE

RESOURCE MATERIAL:

Principal Text: Macroeconomics (Fourth Edition); Blomqvist, Wonnacott, Wonnacott, & Fried McGraw - Hill Ryerson Ltd., 1994. (Plus Study Guide)

- Support Material:
1. Economics, Third Edition; Michael Parkin & Robin Bade; Addison - Wesley Publishers Limited, 1997
 2. Economics: A Problem Solving Approach, Third Edition; Elijah M. James, Prentice-Hall Canada, Inc., 1994.
 3. Current newspapers and periodicals and other appropriate material.

ASSIGNMENTS, PROJECTS, QUESTIONS, ETC.:

All assignments, projects, questions, etc. must be submitted to the professor at the beginning of class on the due date. If no class is scheduled on the due date, students are required to deliver the assignments to the professor's office, by the designated time. Assignments may be submitted in advance; normally assignments will not be accepted after the stated deadline. If assignments are accepted late, a penalty will be assessed. It is the student's responsibility to ensure the professor gets his/her completed assignment.

Questions assigned for homework must be completed promptly and be available at any time to be submitted for evaluation. They, too, will be collected at the beginning of class. Materials not submitted in accordance with these requirements and where no arrangements have been made, will be given a mark of zero.

RETURN OF STUDENTS' WORK:

Quizzes, tests, assignments, projects, etc. will be returned to students during one of the normal class times. Any student not present at that time must pick up his/her test, etc. at the professor's office within three weeks after that class. Tests, etc. not picked up within the three weeks will be discarded. End of semester tests, assignments, etc. will be held for three weeks. If they have not been picked up by students within that three-week period, the tests, assignments, etc. will be discarded.

Tests, etc. will be returned only to those students to whom they belong. In limited circumstances, tests, etc. may be given to another student, if the student to whom they belong provides written instructions to the professor requesting that the tests, etc. be given to a particular individual.

ASSISTANCE IS ALWAYS AVAILABLE:

IT WILL BE TO THE STUDENTS' ADVANTAGE TO HAVE ANY QUESTIONS, CONCERNS, OR PROBLEMS RELATED TO THIS COURSE RESOLVED AS SOON AS POSSIBLE. IF YOU REQUIRE ANY ASSISTANCE, SEE YOUR PROFESSOR. HE WILL BE MORE THAN HAPPY TO HELP.

Review classes will be held as deemed necessary by the professor. Tutorials held outside of class time may also be arranged at the mutual convenience of the students and the professor. These review classes and tutorials are not to be used as an opportunity to miss classes. Students are urged to ask questions and participate in the class discussions. This will enable the student to clarify any issue and also to participate in and contribute to the class discussions. Students are also encouraged to read newspapers, magazines, etc. and to tune in to the radio and television newscasts for economic and business news. This will make economics more understandable, interesting, and practical. It will provide the opportunity for the student to better apply the theory and to enhance his/her opportunity for success in this course.

PLEASE KEEP IN MIND THAT ECONOMICS IS NOT A "SPECTATOR SPORT."
STUDENTS MUST DO THE REQUIRED WORK IF THEY EXPECT TO BE SUCCESSFUL.

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Note:

Additional required readings may be assigned as the course progresses.

IT WILL BE TO THE STUDENTS' ADVANTAGE TO HAVE ANY QUESTIONS, CONCERNS, OR PROBLEMS RELATED TO THIS COURSE RESOLVED AS SOON AS POSSIBLE. IF YOU REQUIRE ANY ASSISTANCE, SEE YOUR PROFESSOR. HE WILL BE MORE THAN HAPPY TO HELP.

It is your professor's intention to create and maintain an environment that is conducive to the students' academic learning and growth. Please refer to the document, Student Rights and Responsibilities,