

COURSE DESCRIPTION

Course Title	INTRODUCTION TO MACROECONOMICS			
Course Code	ABSE102			
Course Type	Compulsory			
Level	BSc (Level 1)			
Year / Semester	1 / Spring			
Teacher's Name	Dr Petia Tanova			
ECTS	6	Lectures / week	3	Laboratories/week
Course Purpose	<p>This course has a goal to provide a basic knowledge of the macroeconomic environment in which consumers, businesses, and governments operate and also to provide the students with an understanding of the various notions and concepts of macroeconomics, focusing on the demand side and short run macroeconomic fluctuations. It provides students with a toolbag of basic analytical techniques, which one would need to effectively function as an active participant in the ever-changing world we live.</p> <p>A major objective of the course is to help students to develop systematic, critical and independent thinking of today's macroeconomic problems. This means that students are expected to:</p> <ul style="list-style-type: none"> • Achieve a basic understanding of the vocabulary, concepts, and principles of macroeconomics; • Cope with evaluating different beliefs and opinions when discussing macroeconomic problems and develop their own set of arguments and values; • Make sense of economic reality, transform theoretical knowledge into practical skills, and apply theories to problems and policy issues. <p>This course is fundamental in enabling students to pursue further modules in economics and in the field of business decision making in general.</p>			
Learning Outcomes	<p>Upon the successful completion of this course, students will be able to:</p> <ol style="list-style-type: none"> 1. Identify the key concepts of macroeconomics, the objectives and instruments of macroeconomic analysis. 2. Realize the institutional constraints of economic activity and the potential output and the natural rate of unemployment. 3. Analyze outcomes of economic activity: Gross Domestic Product, real and nominal GDP, price indexes and employment and unemployment. 4. Collect and report real life information for GDP, price level, employment and unemployment and apply the data in problem solving. 5. Compare and contrast different approaches to measuring GDP. 			

	<ol style="list-style-type: none"> 6. Assess GDP shortcomings as a measure of living standards. 7. Identify and quantify aggregate expenditures; analyze their determinants and apply them in problem solving. 8. Integrate concepts of macroeconomic equilibrium and appraise its dynamics analytically and graphically. 9. Derive the simple and the complete multiplier and interpret its constraints. 10. Evaluate business fluctuations and apply the theory of business cycle to the analysis of the current economic dynamics. 11. Define and categorize the types of fiscal policy and debate their controversies 12. Discuss the meaning and significance of the budget deficit and government debt. 		
Prerequisites	None	Co-requisites	None
Course Content	<p><i>I. Introduction to macroeconomics.</i></p> <p>Articulate the three economic problems from macroeconomic perspective and derive the objectives of macroeconomic analysis. Explain the importance of each objective.</p> <p>Identify the main macroeconomic variables: output, employment, price level.</p> <p>Determine and discuss the institutional constraints of economic activity: define potential output and natural rate of unemployment. Employment vs. unemployment.</p> <p>Discuss the meaning and measurement of employment and unemployment in macroeconomic analysis. Compare and contrast the rate of labor force participation, the rate of employment and the rate of unemployment.</p> <p>Build the circular flow model and apply it to explaining output creation</p> <p><i>II. Measuring macroeconomic activity</i></p> <p>Identify GDP as the main macroeconomic outcome, using the circular flow model. Distinguish between final goods and intermediate goods; understand the concept of value added and apply it in problem solving.</p> <p>Identify three approaches to measuring GDP: the value added approach, the expenditure approach and the income approach.</p> <p>Derive the expenditure approach to measuring GDP by outlining economic decision makers and their spending. Explain the importance of considering spending of foreigners and spending on foreign final goods and services in the expenditure approach and identify their specificity.</p> <p>Distinguish different types of income and outline the income approach to GDP estimation. Discuss the meaning of the following variables: primary income vs. final income, factor payments vs. transfer</p>		

payments.

Compare and contrast income approach to the expenditure approach. Derive the NDP and domestic income, personal income and disposable income. Discuss the meaning and importance of national accounts and apply the theory in problem solving, based on real data.

Confront real vs. nominal variables and explain the meaning of real GDP vs. nominal GDP

Understand the statistical concept of indexes and their importance for economic analysis.

Build the index of GDP deflator and apply it to problem solving. Calculate the rate of inflation based on GDP deflator and outline its deficiencies.

Identify GDP shortcomings as a measure of living standards. Discuss GDP imperfections on the basis of team work data collection and analysis. **III. Aggregate expenditures**

Determine consumption spending: derive consumption function and build the consumption curve. Identify the marginal propensity to consume (MPC) and recognize it as a factor determining the slope of the production curve.

Identify and explain factors, determining, determining the shifts of the production function.

Derive the savings function and the marginal propensity to save (MPS) as residual variables; build and examine the savings curve.

Compare and contrast MPC and MPS and average propensity to consume and average propensity to save, respectively, and explain the meaning of marginal and average variables. Apply it to the elucidation of the paradox of thrift.

Define gross private investment demand and explain its components and determinants. Outline the importance of inventories as the most vulnerable part of the investment demand.

Discuss government spending as a component of aggregate expenditures. Distinguish between government purchases and transfer payments and explain why the latter are not included in GDP calculations. Derive and explain the import's function. Compare and contrast the imports and exports as determinants of AE.

Summarize factors, determining aggregate expenditures and apply them in problem solving.

IV. The dynamics of macroeconomic equilibrium

Determine macroeconomic equilibrium as $AE = Y$ and apply it to graphical analysis.

	<p>Distinguish between planned and actual spending and outline macroeconomic disequilibrium. Understand and explain the role of inventories in the dynamics of macroeconomic equilibrium.</p> <p>Identify injections and leakages. Derive the equilibrium condition as: Injections = Leakages, and analyze it through the interplay between the equilibria in the private, government and foreign sectors.</p> <p>Derive and explain the simple multiplier. Obtain the complete multiplier and discuss its constraints. Apply the simple and the complete multiplier in problem solving.</p> <p>Understand and define the business cycle. Identify macroeconomic fluctuations and the phases of the business cycle. Analyze fluctuations of output, inventories, investment, unemployment and price level. Classify the indicators of the business cycle and apply the theory of business cycle to the analysis of the current economic dynamics.</p> <p>V. Fiscal policy</p> <p>Define fiscal policy as a system of goals and tools of the Ministry of Finance to affect the macroeconomic activity through government purchases and taxes.</p> <p>Categorize types of fiscal policy and compare them from the perspective of their goals.</p> <p>Identify and analyze the instruments of fiscal policy.</p> <p>Explain the government budget and interpret its deficits and surpluses. Analyze the demand side fiscal policy from the perspective of its determinants and its effectiveness. Identify the budget multiplier and apply it to solving problems.</p> <p>Outline the controversies of the demand side fiscal policy from the perspective of its constraints and effectiveness.</p> <p>Familiarize with the austerity policy and the arguments of its proponents and opponents. Discuss the effectiveness of the austerity policy applied in Cyprus to confront the resent fiscal imbalances, based on a teamwork collection, presentation and discussion of instruments and outcomes.</p> <p>Acquaint with the foundations of the supply side fiscal policy and its constraints. Build the Laffer's curve and explain its shape. Debate the effectiveness of the supply side fiscal policy based on empirical evidence.</p>
Teaching Methodology	The taught part of course is delivered to the students by means of <i>cathedra</i> lectures and discussions in class, by means of traditional tools and using computer demonstrations. The instructor relates current events with the material presented in the lectures During the lectures students are encouraged to participate in discussions.

	<p>Some of the key issues are revealed on the basis of simulation games. Role playing and teamwork are incorporated in the simulations.</p> <p>Auditory exercises, where examples regarding matter represented at the lectures, are solved and further questions related to particular open-ended topic issues are compiled by the students and answered, during the lecture or assigned as homework.</p> <p>Topic notes are compiled by students, during the lecture. Lecture notes and slide shows can also be downloaded from the lecturer's webpage. Tutorial problems are submitted as homework and these are solved during lectures or privately during lecturer's office hours.</p> <p>Further literature search is encouraged by assigning students to identify a specific problem related to some issue, gather relevant scientific information about how others have addressed the problem and report this information in written or orally. Teamwork assignments on the recent macroeconomic fluctuations and the fiscal imbalances in Cyprus are given to collect information and communicate it with the audience in a dispute format.</p>
Bibliography	<p><u>(a) Textbooks:</u></p> <ul style="list-style-type: none"> • Sloman J, D. Garratt and Jon Guest. Economics. Pearson, 10th edition • Samuelson & Nordhaus, Economics, McGraw Hill, 19th edition <p><u>(b) References:</u></p> <ul style="list-style-type: none"> • Parkin M., M. Powell and K. Matthews. Economics, Pearson, 9th edition • Crystal A. & R. Lipsey. Economics, Oxford University Press, 13th edition • Tanova P. European Austerity Policies' Constraints and Controversies under the Social Market Economy – the Case of Cyprus. 4th International Conference: The Economies of Balkan and Eastern Europe Countries in the Changed World
Assessment	<p><u>(c) Methods:</u></p> <p>Students are assessed with coursework that involves homework assignments and class participation, two written quizzes, a midterm and a final exam. The assessment involves explaining theoretical concepts, examining real life situations, solving numerical problems and applying graphical analysis.</p> <p>Students are assessed continuously and their knowledge is checked through tests with their assessment weight, date and time being set at the beginning of the semester via the course syllabus.</p>

	<p>Students are prepared for final exam, by revision on the matter taught, problem solving and concept testing and are trained to be able to deal with time constraints and revision timetable.</p> <p>The final assessment of the students is formative and cumulative and is assured to comply with the subject's expected learning outcomes and the quality of the course. <u>(d) Criteria:</u></p> <p>The assessment criteria can be generalized as follows concerning the area assessed:</p> <ul style="list-style-type: none"> • 86% or more – Excellent application of problem solving skills. • 76%-85% - Very good application of problem solving skills. • 66%-75% - Good application of problem solving skills. • 56%-65% - Satisfactory with some success in applying problem solving skills • 50%-55% -Satisfactory with limited success in applying problem solving skills • Below 50% -Little or no application of problem solving skills. <p>Assessment criteria are available in each written assignment, midterm or in the final exam.</p> <p><u>(c) Weights:</u></p> <table style="width: 100%; border: none;"> <tr> <td style="width: 80%;">Final Exam</td> <td style="text-align: right;">6%</td> </tr> <tr> <td>2 Quizzes</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>Mid-term</td> <td style="text-align: right;">20%</td> </tr> <tr> <td>Homework assignments and participation</td> <td style="text-align: right;">10%</td> </tr> </table>	Final Exam	6%	2 Quizzes	10%	Mid-term	20%	Homework assignments and participation	10%
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