COMM401 ADVANCED MACROECONOMIC THEORY 8 CP

Prior Knowledge: It is assumed that students will have a good understanding of intermediate macroeconomics, integral and differential calculus and some matrix algebra. If you are unsure as to whether you satisfy these requirements you should discuss these matters with the lecturer. Some preliminary readings, which may be helpful, include:


AUTUMN 2007 WOLLONGONG CAMPUS

Subject Coordinator/ Lecturer/ Tutor

ASSOC. PROFESSOR ED WILSON

School of Economics

Room: 40.212  Ph: 42213663  email: edgar_wilson@uow.edu.au

Consultation: Wednesday  Time: 11am – 1pm
Thursday  2pm – 4pm
## SECTION A: GENERAL INFORMATION

### LECTURE TIMES

Lectures will be held on **Thursday** 9.30am – 12.30pm  Room 40.127

### LECTURE PROGRAM

<table>
<thead>
<tr>
<th></th>
<th>Topics Covered</th>
<th>Readings</th>
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<tbody>
<tr>
<td></td>
<td>Introduction</td>
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<tr>
<td></td>
<td>• Consumer optimisation</td>
<td>Barro and Sala-i-Martin (1995) Chs. 1 - 5</td>
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<td></td>
<td>• Investment</td>
<td>Blanchard and Fischer (1990) Ch. 2</td>
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<td></td>
<td>• Human capital</td>
<td>Solow (2000) Chs. 8 - 11</td>
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<td></td>
<td>• New technology and consumer goods</td>
<td>Wilson and Chaudhri (2003)</td>
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<td></td>
<td>• Schumpeterian ideas</td>
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<td>3</td>
<td>Real Business Cycles</td>
<td>Romer (2006) Ch. 4</td>
</tr>
<tr>
<td></td>
<td>• Intertemporal labour supply</td>
<td>Wilson (2005)</td>
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<tr>
<td></td>
<td>• Persistence of technology shocks</td>
<td></td>
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<td></td>
<td>• Non-stationarity and structural change</td>
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<td>4</td>
<td>Money and General Equilibrium in AD</td>
<td>Romer (2006) Ch. 8</td>
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<tr>
<td></td>
<td>• Properties of assets</td>
<td>Tobin (1998) Chs 2, 6 and 10</td>
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<td></td>
<td>• Valuing capital assets and Tobin’s q</td>
<td>Wilson (2003)</td>
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<td></td>
<td>• The effects of uncertainty</td>
<td></td>
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<tr>
<td>5</td>
<td>Price and Output Determination</td>
<td>Sarno and Taylor (2002) Ch. 4</td>
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<td></td>
<td>• Open economy dynamic adjustment</td>
<td>Wilson (2004)</td>
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<tr>
<td></td>
<td>• Saddlepath solutions</td>
<td>Romer (2006) Chs. 5, 6 and 9</td>
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<tr>
<td></td>
<td>• Output-inflation tradeoffs</td>
<td>Gruen, Pagan and Thompson (2000)</td>
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<td></td>
<td>• Unemployment, NRU and hysteresis</td>
<td></td>
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<td></td>
<td>• Monetary transmission mechanisms</td>
<td>Romer (2006) Ch. 10</td>
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<tr>
<td></td>
<td>• Dynamic inconsistency</td>
<td>Ball (1998)</td>
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<td></td>
<td>• Open economy policy rules</td>
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<td></td>
<td>• Government budget constraint</td>
<td>Romer (2006) Ch. 11</td>
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<td></td>
<td>• Ricardian equivalence and twin deficits</td>
<td>Pagan (1990), Nguyen (1990)</td>
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<td></td>
<td>• Macroeconomic policy, game theory and time</td>
<td>Carter and Maddock (1987)</td>
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<tr>
<td></td>
<td>inconsistency</td>
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</table>
BRIEF OUTLINE

The course attempts a critical review of advanced contemporary macroeconomic theories and their policy prescriptions. In doing so the course stresses the need to consider four important concepts, namely the international orientation of macroeconomics, the role of expectations and their formation, the importance of dynamics and speeds of adjustments and finally, the difficulty of formulating and implementing consistent, optimal macroeconomic policy in a changing world.

Unfortunately no single, satisfactory text exists which covers the required material in this course. The following reading guide includes the major references from which topics will be selected.

Topic 1 firstly introduces the course and briefly reviews important macroeconomic concepts in a historical setting. Long run economic growth is covered in Topic 2, paying particular attention to endogenous explanations in terms of human capital and evolving technology and new consumer goods as well as Schumpeterian creative destruction explanations. Topic 3 considers real business cycles in terms of labour supply and technology shocks in a changing non-stationary environment.

The integration of money and capital theory which students typically find difficult is then considered in detail in Topic 4. Further important economic concepts and advanced analytic techniques are covered in Topic 5 on output and inflation. Topics 6 and 7 consider fiscal and monetary policies for an open economy. Topic 8 brings together key aspects of these policies, emphasising the formalisation and analysis of optimal, time consistent macroeconomic policy.

The purpose of these topics is to introduce and critically review the international orientation of macroeconomics, the importance of expectations and short run dynamics of adjustment, and the nature of equilibria and optimisation in a growth context.

Experience shows that normally there is only time to cover six of the seven topics in lectures. This allows approximately two lectures per topic. Sub-topics will be selected according to student’s preferences and needs.

STUDENT LEARNING OUTCOMES

Upon successful completion of this subject, students will develop detailed knowledge and understanding of advanced macroeconomic theory and concepts. In addition to the development of relevant discipline knowledge, the activities included in this subject are designed to develop skills in critical evaluation, investigation, written communication, using mathematical concepts and techniques and planning and organising.

ATTENDANCE REQUIREMENTS

In order to maximise learning outcomes, it is strongly recommended that students attend all lectures. Students are expected to attend lectures having done the background readings beforehand, be fully prepared and to contribute to discussions. The achievement of many of the above tertiary literacies is an important aspect of these activities. If after a lecture (and despite preparatory reading) there is something in the lecture you have not understood or which is incomplete in your notes, you should ask the lecturer. If the difficulty remains, you should arrange to see the lecturer for a more extended consultation during the consultation times listed above.

PERFORMANCE LEVEL

To be eligible to pass this subject, students must achieve an overall mark of at least 50%, and at least 40% on the final examination.
MAJOR REFERENCES

Unfortunately no single, satisfactory text exists which covers the required material in this course. The lecture guide above includes the major references from which the major contributions will be selected.

The major reference is:


The other important references are:


Wilson, E. J. (2005), 'Lecture Notes 1 – Introduction to Advanced Macroeconomics', University of Wollongong, mimeo.


Wilson, E. J. and D. P. Chaudhri (2007), ‘Endogeneity, Knowledge and Dynamics of Long Run Capitalist Economic Growth’, University of Wollongong, mimeo.

SECTION B: ASSESSMENT

WRITTEN ASSESSMENT

<table>
<thead>
<tr>
<th>Assessment 1:</th>
<th>Exercises 1, 2, 3 and 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topics</td>
<td>Exercise 1: Topic 2 Long run economic growth</td>
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<tr>
<td></td>
<td>2: Topic 4 Money and General Equilibrium in AD</td>
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<tr>
<td></td>
<td>3: Topic 5 Price and Output Determination - Saddlepath Solutions</td>
</tr>
<tr>
<td></td>
<td>4: Topic 5 Price and Output Determination - Unemployment, NRU and Hysteresis</td>
</tr>
<tr>
<td>Marking criteria</td>
<td>Students should attempt to analyse and evaluate the technical economic principles, rather than simply explain them. The criteria for marking the exercise will be based on the following demonstrated student competencies (which are not listed in any particular order):</td>
</tr>
<tr>
<td></td>
<td>- the relevance of the answers to the questions,</td>
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<tr>
<td></td>
<td>- the appropriate selection of analytic techniques,</td>
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<td></td>
<td>- the demonstration of sound understanding of the assumptions and workings of the relevant model(s),</td>
</tr>
<tr>
<td></td>
<td>- the ability to analyse and explain the model(s).</td>
</tr>
<tr>
<td>Length:</td>
<td>There is no maximum word length. Concise and succinct answers tend to be rewarded relative to wordy, hyperbolic and obtuse attempts.</td>
</tr>
<tr>
<td>Weighting:</td>
<td>4 exercises @ 5% each = 20%</td>
</tr>
<tr>
<td>Due dates</td>
<td>Hand the exercise to the lecturer at the start of class.</td>
</tr>
<tr>
<td></td>
<td>Exercise 1: Week 4</td>
</tr>
<tr>
<td></td>
<td>2: Week 6</td>
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<td></td>
<td>3: Week 8</td>
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<td></td>
<td>4: Week 10.</td>
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</tbody>
</table>

Assessment 2: Essay

| Topic | “Whilst the Solow and endogenous growth models are worth analysing, they are now seen to be inadequate explanations of long run economic growth”. |
|       | Carefully evaluate this statement. |
Marking criteria

The criteria for marking the essay will be based on the following demonstrated student competencies (which are not listed in any particular order):
- the relevance of the essay to the above question,
- the appropriate selection of models for consideration,
- the demonstration of sound understanding of the models’ assumptions, purposes, strengths and weaknesses,
- the ability to analyse and compare the models, and
- the ability to structure an essay and to argue logically and consistently.

Do not merely describe and explain your selected models. Assume these details are known and understood. You should attempt the more difficult task of analysing, evaluating and comparing the models in answering the question above. There is no right or wrong answer.

Length:

Maximum 2,000 words (exclusive of synopsis and bibliography). Material presented in excess of the first 2,000 words will not be read or marked.

Weighting:

20%

Due date

Hand the essay to the lecturer at the start of class in Week 12.

References

For a start, see the relevant readings of the Lecture Outline and Reading Guide

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EXAMINATIONS

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FINAL EXAMINATION

Weighting

60%

Date

The final examination will be held during the formal examination period. The date will be confirmed during the course of the subject and published on SOLS 3 to 4 weeks before the examination period.

Time allowed

3 hours plus 15 minutes reading time

Structure of paper

Students are required to answer three essay questions. One question is to be attempted from Section A and two questions from Section B. All questions are of equal value.

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SCALING

Scaling will not normally be applied and will only be at the direction of the School of Economics Assessment committee.
SUBMISSION, RETENTION AND COLLECTION OF WRITTEN ASSESSMENT

The assignments will be marked and available for collection prior to the study week before the final examination.

A Faculty of Commerce assignment cover sheet should be attached to each piece of written assessment.

This cover sheet can be obtained from the website:

Pages should be securely fastened together. Answers to each Assignment should be as succinctly and clearly presented as possible.

Your answers to each assignment will be put by you into tutor’s box provided in the Economics Discipline corridor by the due time and date. Please take care to place your answers in the box bearing your tutor’s name. The assignments will be returned in tutorials and answers to the assignments will be discussed during the tutorial of the week. If you wish to refer to your answers during tutorials (and this is advisable) you should keep a copy of your answers.

Students may, by making a special prior arrangement with the tutor responsible, post their answers so as to arrive by the morning’s post of the due date.

All assessed work must represent ORIGINAL work and must not be submitted for more than one subject at the University.

Presentation:

The assignment/essay should be typed (double-spaced) or written clearly on one side of the paper only. There must be a margin on the left-hand-side of the page of at least 5cm. This is necessary in order to give the marker space to write comments.

A cover sheet detailing your name, essay title, lecturer's name and tutorial group is necessary. A completed departmental cover sheet must be attached to the front of the essay.

Citation of References:

It is essential that all data and information cited and all quotations are fully acknowledged. Quotations should also be placed in inverted commas. Paraphrased information or analysis should be avoided. However where paraphrasing occurs, the source(s) should also fully cited. Students should retain a full copy of essays submitted. There are two major forms of citation. The Harvard system involves brackets or parentheses around (i) author surname, (ii) year, (iii) pages as in [Galbraith, 1969: 128-9]. Full details of this publication are then placed in the bibliography.

The second major form of citation is the traditional style, which uses footnotes or end notes. The footnote should include the following information: name of author, name of publication (underlined), name of the publishers, the place and date of publication and the page on which the quote or data appears. An example would be:


In the case of material cited from journal articles, the name, volume number and the date of the journal must be given as well as the name of the author and article. The title of the journal is italicised and of the article is in inverted commas:


In the case of material in edited monographs the format is:

For an article which has numerous authors, a second and later citing can replace all authors names after the first with et.al. For example:


In case of further references to material which has already been fully cited once in the essay, these references can be made in a shortened form using the Latin abbreviations ibid, op.cit, and loc.cit. Note that these should be italicised. When references to the same work follow each other without any intervening reference, even though the references are separated by several pages, the abbreviation ibid, for the Latin ibiden, ("in the same place") is used to repeat the reference. However, if the second reference is on a different page in the same work, the page number should appear:

i.e. ibid, p.68

The terms op.cit., and loc.cit. are used under the following conditions. The author's surname followed by op.cit. is used to refer to a work previously cited, and when ibid, may not be used because references to other works have intervened.

i.e. K. Turabian, op.cit., p. 119.

Loc.cit. is used to repeat exactly the same reference to a book a that last made to it, but when other works have intervened so that ibid, is not appropriate:

i.e. J. Galbraith, loc.cit.

N.B. Footnotes should be numbered and consecutive through the whole essay.

In the case of diagrams or tables presented in the body of the essay students should cite the source of this material directly beneath the diagram or table as follows:


Bibliography:

No matter what form of citation is used, an alphabetically arranged bibliography by author's name should be included at the end of the essay. This must contain full information as to the name of the work, the publishers, and the place and date of publication. This information is presented in the same way as for footnotes, except that the Author's surname comes first.


If a reference used is included in a volume of readings, then the name of the editor of the readings and the title of the collection as well as other information should be given. It is not necessary to list each article separately.


The bibliography should only include works actually used in the preparation of the essay. It is imperative that each source which contributed towards the essay be included in the bibliography. Major references should be marked by asterisks. The bibliography should be on a separate page.

Nature of an Economic Essay:

The essay should be regarded as a miniature research project. For this reason, none of the essay reading lists are exhaustive — most provide a starting point only. You are expected to develop library skills in finding source material.

Essay are expected to be analytical and to present an argument. Regurgitation is not a substitute for analysis. Planning is essential. E.g. what are main sources? What are the main points to be covered? Assess the meaning of key words ("discuss", "significant", "class" etc.).
Then, discover the main points of view which exist on the matter, mainly through detailed reading. Then, consider the evidence for and against the various points of view, using notes taken from the reading. Then present your reasoned view, with supporting evidence.

Your essay should have a theme running through it. Draw up a note — outline at first, with major headings for key points arranged in the order you feel brings out your best. There must be a purpose in the order you use. Otherwise you will tend to present a shopping list. Then, fill out these headings, perhaps in note form still, and re-arrange your order of points if necessary.

Logical development is necessary to present an argument.

(a) The beginning states what you take the question to be and defines the key issues. It may point out that there is a debate over the question, along lines that you then indicate, briefly. It does not say what you are firmly of the opinion that X is the case — that comes at the end after you have given your reasons.
(b) The middle sets out the main details of the debate you have referred to.
(c) The end states why you think X is the case, flowing from the evidence you have presented.

Concepts such as "class", "status", "power", "influence" require wariness, for they are not sharp-edged concepts upon which everyone agrees. Meanings change from writer to writer, and often determine a writer's whole argument. Make sure that you clearly show what you mean when using these concepts.

Overstatement or "mediaspeak" is a no-no. The media's attempts to attract attention with overstatement are inappropriate for essays. e.g. a spending reduction becomes a "cut"; or someone who loses a job is "axed"; or "fatal slaying"; and much worse. Mediaspeak is most unique!

People who have particular interest to promote also exaggerate. Those who oppose their interest can become "wreckers", "Communist-dominated", "wicked", "destructive", "dupes". Avoid this, for such statements are often difficult to substantiate. But do not avoid strong statements, as long as you can provide the evidence to support them.

**PENALTIES FOR LATE SUBMISSION OF ASSESSMENT**

Assessed work must be handed in by the date and time given. Assessed work handed in late can be penalised by the deduction (from the mark given to the assessed work) of 5 percentage points per 24 hours of the weekday or part thereof. The operation of this rule will not result in a negative mark being carried forward.

**PLAGIARISM**

Plagiarism means using the ideas of someone else without giving them proper credit. For example, that someone else may be an author, critic, journalist, artist, composer, lecturer, tutor or another student. Unintentional plagiarism can result if you don't understand and use the acceptable scholarly methods of acknowledgement. Whether plagiarism is deliberate or unintentional, the University may impose penalties, which can be very severe. When it is desirable, or necessary, to use other people's material, take care to include appropriate references and attribution. **Plagiarism will not be tolerated and has led to expulsion from the University.**

Students should visit the following University website and become familiar with the University’s policy on Plagiarism.

## SECTION C: RULES, CODES OF PRACTICE & POLICIES

### C1 UNIVERSITY POLICIES

Information on the following University Policies can be found at the websites below:

<table>
<thead>
<tr>
<th>Policy</th>
<th>Website</th>
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<tbody>
<tr>
<td>Ethical objection by students to the use of animal and animal products in coursework subjects</td>
<td><a href="http://www.uow.edu.au/about/policy/ethicalobjectionanimals.html">http://www.uow.edu.au/about/policy/ethicalobjectionanimals.html</a></td>
</tr>
</tbody>
</table>

* see brief explanation of policy below.

### C1.1 Non-discriminatory Language

The Faculty of Commerce supports the University’s policy on the use of non-discriminatory language. It is the responsibility of students to ensure that they understand and abide by this policy. The policy is available at:

http://staff.uow.edu.au/eeo/nondiscrimlanguage.html
C1.2 Special Consideration Policy

The Faculty of Commerce recognises that it has a responsibility to ensure equity and consistency across its subjects for all students. Sometimes, in exceptional circumstances, students need to apply for special consideration in order to complete all assessable work.

The University applies strict criteria to the granting of special consideration. Before applying for special consideration students should carefully read the University’s policy. The policy can be found at:


Add any School specific procedures or information here {or delete statement}.

C1.3 Student Academic Grievance Policy

The Faculty of Commerce aims to provide a fair, equitable and productive learning environment for all its students. The Student Academic Grievance Policy seeks to support the achievement of this goal by providing a transparent and consistent process for resolving student academic grievances.

Any student who has a grievance over a result should obtain a Faculty of Commerce Appeal of Assessment Form from the Schools or the Sub-Dean’s Unit. The student should firstly take the form to the marker/lecturer to discuss the matter and, if the student is still not satisfied, s/he should take the next step as outlined on the form.

Once the grievance has been considered by the Faculty, if the student still feels the situation has not been fully resolved s/he may consult the Dean of Students. However, the Dean of Students can have no input into the academic judgement of the lecturer and can only review the grievance to ensure proper procedure has been followed.

For more information, please consult the policy in full at


C2 Faculty and School Policies

Referencing

Why Do You Need to Reference?

At University it is necessary to acknowledge the sources of information and ideas that you have incorporated in your assignments. Failure to do this thoroughly may result in accusations of plagiarism: this is the academic equivalent of stealing (because by not acknowledging someone else’s work, you are presenting it as your own). Plagiarism is taken very seriously by the University and may result in expulsion from the University.

Referencing is not only about acknowledging other people’s work: accurate referencing and lists of references are beneficial when researching a topic as they allow the reader to follow up information and read further into the area. In a sense, references provide readers with clues to help them explore different avenues of a topic. This aspect of referencing will become more valuable to you as you progress in your studies.

There is a correct procedure that must be followed when referencing and using footnotes. Not complying with these set techniques and format will most likely result in loss of marks.

When writing an essay it is easiest to reference as you go, making sure you are writing down all relevant information. This will save hours trying to find the source again in the library.

The Harvard System of Referencing
The Faculty of Commerce uses the Harvard system of referencing. This system makes use of short references within the body of the text. It is supplemented by a detailed list of references at the end of the text, which provides all the information necessary to find the source material. In-text references include the author and year of publication, and where necessary the page number(s).

*It is the responsibility of students to ensure that they are familiar with the Harvard system of referencing and that they use it accurately in all written work submitted.*

Students should consult the following University Library website for a detailed explanation and examples of the Harvard system of referencing.


**CITATION OF ELECTRONIC SOURCES**

It is necessary for students to reference all sources used in their written work, including file transfer protocol sites, worldwide web sites, telnet sites, synchronous communications (MOOs, MUDs, IRC, etc.) GOPHER sites, and email, Listserv and Newsgroup citations.

*It is the responsibility of students to ensure that they are familiar with the accepted Faculty of Commerce practice for referencing electronic material and that they use it accurately in all written work submitted.*

Students should consult the following University Library website for a detailed explanation and examples of how to reference electronic material.


**OCCUPATIONAL HEALTH AND SAFETY WHERE RELEVANT, INCLUDING SAFETY IN LABORATORIES AND ON FIELD TRIPS**

**C3 SUPPORT SERVICES AND FACILITIES**

{The following details of C3 are relevant to the Wollongong campus.

Off-campus sites should include their relevant support service details and delete areas which are not relevant}.

**LEARNING RESOURCE CENTRE**

Learning Development offers a range of free services to all enrolled students who wish to improve their academic or English language skills. There are a range of workshops available including: essay writing and editing; reading for assignments; grammar; presentation skills; pronunciation and exam preparation.

For information on language and academic skills workshops, or to make appointments for consultations, please visit the Learning Resource Centre (LRC), Building 19, Ground Floor, Room G102, or Phone 02 4221 3977. For further information visit the website:


**FACULTY LIBRARIANS**

Each faculty has a Faculty Librarian who is available to help with research related enquiries. Research Help Desk staff are also available in the Library to assist with research needs.
The Faculty Librarians for Commerce can be contacted as follows:

email: lib_commerce@uow.edu.au

telephone: 42 213078

DISABILITY LIAISON OFFICER

The Disability Liaison Officer (DLO) can provide advice on how particular disabilities affect university study and information on resources available at the University for assisting students with disabilities. Students commencing courses are advised to contact the Disability Liaison Officer prior to the beginning of their first session of study.

For further information on services offered, consult the Disability Services website or contact the office.

web address: http://www.uow.edu.au/student/services/ds/

telephone: 42 213445

fax: 42 215667

FACULTY DISABILITY ADVISERS

Faculty Disability Advisers are academic staff who provide assistance and support to students with disabilities within their Faculty and act as an intermediary between the student and the Faculty's academic and general staff. They provide support, educational advice and referral to appropriate staff on issues related to teaching and learning within the Faculty and the University. Students are advised to communicate specific information about the ways in which their disability affects learning to the Faculty Disability Adviser as soon as possible after enrolment.

The Faculty of Commerce Disability Adviser is Mr. Ron Perrin. Mr Perrin can be contacted as follows:

Office location: Building 40, room 224

email address: ron_perrin@uow.edu.au

telephone: 42 214118

WOOLYUNGAH INDIGENOUS CENTRE

The Woolyungah Indigenous Centre provides academic and personal support for Aboriginal & Torres Strait Islander and other indigenous students. The Centre also runs an Indigenous Specific Orientation Program for students who gain entry to the University through the alternative admissions program.
For further information on services offered, consult the Woolyungah Indigenous Centre website or contact the office.

<table>
<thead>
<tr>
<th>Centre location:</th>
<th>Building 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>web address:</td>
<td><a href="http://www.uow.edu.au/aec/">http://www.uow.edu.au/aec/</a></td>
</tr>
<tr>
<td>telephone:</td>
<td>42 213563</td>
</tr>
<tr>
<td>fax:</td>
<td>42 214244</td>
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</tbody>
</table>