BSP 2001 Macro and International Economics

Instructor
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Textbook


For those who consider themselves weak in economics, I will recommend the textbook by R. Sexton: *The Exploration of Macroeconomics*, 5th edition, Publisher: South Western, Cengage, 2011. This is a good compendium reference.

Optional Readings

Optional readings are *not required* for this course but reading the following books will significantly improve your understanding of macroeconomics. *Reading these books is totally at your choice.*


Course Description

The purpose of BSP 2001 is to familiarize students with theories in macroeconomics and international economics. It aims to provide students with the necessary tools and economic framework to better understand and analyze macroeconomics issues such as
economic growth, unemployment, inflation, business cycles, government budget, trade deficit/surplus, and the measures and policies adopted by government and international institutions to cope with them. Undoubtedly, macroeconomics at both the domestic and international levels will have impact on the business decision and strategies for product innovation, market expansion, and investment. After taking this course, you are expected to understand articles and reports in The Economist, Business Week, Financial Times, or Asia Wall Street Journal more clearly.

Prerequisite

Students who keep up-to-date with economic development and international trends by reading daily newspapers and other economic magazines will find this course easy and helpful. There is no prerequisite of quantitative and mathematical skill for this course, but students are expected to familiarize with basic algebra, graphs and math refresher in the Appendix of the main textbook (Blanchard). It will be useful that students refresh themselves with rudimentary parts of microeconomic concepts of supply and demand, price determination, and market clearing, etc. Moreover, it would be very useful to review the following concepts: identity vs. equilibrium condition, nominal vs. real variables, stock vs. flow, and exogenous vs. endogenous variable.

Assessment

There are 3 components in the assessment scheme.

a) Tutorial Assignments/Quiz
And Presentations 25%

b) Mid Term Test 25%

c) Final Examination 50% : 2 hours examination.

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Total 100%
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# Course Outline

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<th>Week</th>
<th>Topics</th>
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<td>Self Reading: Introduction</td>
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| 1.   | **Basic Economics Concepts:** Circular Flow of Income  
National Income Accounts; Valuation: Nominal & Real  
Macro Aggregate Indicators: GDP; Inflation, Unemployment  
Time: Short Run, Medium Run & Long Run  
The Three Markets: Goods, Financial; Factor (Labor & Capital)  
Classical Macroeconomics | 1 |
| 2.   | **Short Run Macroeconomics:** Keynesian Income Model & IS Curve  
Goods Market: Keynesian Cross Model  
Income Multiplier; Fiscal Policy  
IS Curve: Equilibrium in Goods Market; Crowding Out | 2 |
| 3.   | **The Financial (Money) Markets; Role of Money & LM Curve**  
Demand for Money: Motives  
Supply of Money; Role of Central Bank; Money Multiplier  
Monetary Policies: Open Market Operation; Reserve Requirement  
LM Curve: Equilibrium in Money Market; Liquidity Trap  
IS-LM Model: Policy Mix. | 3, 4 |
| 4.   | **The Financial Markets & Economic Instability**  
Bubble and Financial Crisis.  
Balance sheets & Leverage  
ISLM and Global Economic Crisis  
Government Budget, Debt, & Limitation of Fiscal Policies | 5, 6, |
| 5.   | **ISLM Model in the Open Economy**  
"Trilemma": independent Monetary Policy; fixed Exchange rate; capital mobility.  
Balance of Payments, Imports & Exports; Exchange rates; Interest rate parity;  
Purchasing power parity;  
Goods Market in Open Economy.  
Policy in an Open Economy; Stabilization Policies under Fixed and Flexible Exchange rate regimes. | 7 |
| 6.   | **Medium Run Macro: The AS-AD Model**  
Recap of Classical Macroeconomics; MV=PY  
Derivation of AD Curve via IS-LM Model  
Labor Market Adjustment; Wage & Price Determination  
Derivation of AS Curve: with fixed nominal wage.  
AS-AD Model & Effects of Fiscal & Monetary Policies  
International Macro: Policy in the Medium Run under fixed and flexible exchange rate.  
Analysis with ASAD Model. | 8 |
| 7.   | **Inflation and Unemployment** trade-off; Phillips Curve; Natural Rate of Unemployment (NAIRU);  
Dynamic Adjustment of output and inflation.  
Demand & Supply Shocks; stagflation;  
Okun’s Law; Government Budget Constraint; Debt | 9, 10 |
| 8.   | **Long Run Macro: Economic Growth**  
Harrod-Domar Growth Model  
Neoclassical Production Function: Sources of Growth  
Capital Accumulation & Saving and Economic Growth  
Neoclassical Production Growth Model; Technological Progress: R&D;  
New Growth Theories | 11 & 12 |
| 9.   | **Macro Policies: Goals, Tools & Rules of Monetary Policy**  
Targets & instruments: Tinbergen rule  
Rules vs Discretions; Monetary Policy: Taylor Rule; Policy Pitfall;  
Supply-side economics. | 14 |
| 10.  | **International Events & Macro Issues**  
Globalisation & Economic Crisis; Gain from Trade.  
Can Poor countries achieve economic growth?  
Free Trade Agreements & Monetary Union: Are they useful to Business and Economic Steermanship and Economic growth? |   |