

ECON 1002: INTRODUCTION TO ECONOMICS II

Course Type: Core

Level: 1

Semester: II

No. of credits: 3

Prerequisites: None

COURSE DESCRIPTION//RATIONALE

This is an introductory Macroeconomics course and is one of the core courses offered by the *Department of Economics*. It is a foundation course for the understanding of economics and the Department is committed to supporting students in their quest to understand and indeed to excel in this course. Please feel free to consult with your respective lecturers and tutors as problems/issues arise. Students are also strongly encouraged to visit the lecturers during stipulated office hours to discuss various issues and concerns. Alternatively, the secretariat in the Economics Department Office (Room 203) will be pleased to arrange a special appointment if necessary.

ECON 1002 is designed to equip students with the tools necessary for analyzing real world macroeconomic problems and will serve as the basis for a more advanced course of study in macroeconomic theory. For the non-specialists, the course covers topics that will contribute greatly to understanding many of the most pressing issues facing the country and the world we live in, and includes concepts that are highly relevant to decision-making in most jobs.

Approached in the right way, this course can be an adventure. At the end, students should be able to better understand the news they hear, can make better decisions in their personal lives, make more informed choices at the voting booth, and overall, be better citizens.

LEARNING OUTCOMES

Upon successful completion of this course the student will be able to;

- ❖ Describe and depict the macro-economy with the use schematics, graphs, and equations.
- ❖ Clearly define the economic output of a country and distinguish between the various concepts used to measure it
- ❖ Depict and explain the concepts of equilibrium and output gaps in the macro-economy
- ❖ Analyze and evaluate the impact of shocks to the macro-economic equilibrium, both with equations and with diagrams
- ❖ Explain the role and impact of government intervention in the macro-economy through its fiscal, monetary, and international trade policies
- ❖ Analyze and evaluate the use of the different tools available to the government in effecting its economic policies
- ❖ Identify the types and determinants of unemployment and suggest policies to tackle this problem in the context of Caribbean economies

- ❖ Explain the theories of economic growth and identify the factors that restrain economic development in the Caribbean
- ❖ Explain the determination of exchange rates and the structure of the balance of payments of a country, and relate their significance to the macro-economy
- ❖ Distinguish between free trade and protection and evaluate the impact of protectionist measures on the development process of Caribbean economies

CONTENT

The course begins with a discussion of the Caribbean context within which the different components of the course will be presented.

The course introduces the concept a Circular Flow and proceeds to cover the basic concepts pertaining to National Income and its determinants, Gross Domestic Product, Aggregate Demand, Aggregate Supply, and macro-economic equilibrium.

Given this framework, the course examines the impact of shocks to the equilibrium and analyzes the use of government economic policy tools to achieve desired outcomes. Additionally, the course will examine a few of the major issues of macroeconomic theory: Economic Growth, Unemployment, Balance of Payments Disequilibrium, Inflation, Budget and Trade Deficits.

Finally, issues relevant to the macroeconomic management of small open economies will be discussed.

TEACHING METHOD

Each student is required to attend at least **one two-hour lecture session per week** and will be assigned to a **tutorial group which will meet once per week for one hour**. **Tutorial sessions will begin one week after the start of lectures.**

Tutoring and Support Tutorial sessions are meant to facilitate a deeper understanding of the subject matter. Students will be provided with tutorial questions which they **are required to prepare before the weekly tutorial session**. Ensure that you prepare to maximize the benefits from the tutorials!

The "**mylearning**" website will be used as a support platform for the delivery and assessment of this course. On a regular basis, students should login to the site to access tutorial materials, links and activities, to make inquiries, and to see the latest announcements and discussions.

Please visit <http://mylearning.sta.uwi.edu/login/index.php> to select and register for a tutorial and lecture session for ECON 1002.

A Note on Tutorial Attendance

Please note that **UWI Examination Regulation No. 19** states that “*Any candidate who has been absent or whose attendance at prescribed lectures, classes, ... **tutorials**, ... has been*

unsatisfactory or who has failed to submit essays or other exercises may be debarred by the relevant Academic Board, on the recommendation of the relevant Faculty Board, from taking any University examinations “

Please note that the Department of Economics//Faculty of Social Sciences **requires students to attend and participate in at least 75% of tutorials for a course to avoid being debarred from taking the final exam.**

Please note that *this means that your attendance at tutorial sessions will be monitored.*

Students are reminded that, in addition to regular attendance at the lecture sessions, completion of the tutorial sheets and participation in tutorial sessions will put you in good stead to be successful in the final exam.

Lecturers

A team of lecturers will deliver the course on the St. Augustine campus. Members of the team include: Ms. Patricia Edwards-Wescott, Dr. Althea La Foucade, Dr. Anne-Marie Mohammed and Dr. Ewan Scott.

ASSESSMENT

| Assessment Item | Weighting | Opening date of assignment | Closing date for Assignment |
|-----------------------------|------------|--|-----------------------------|
| Baseline Quiz* | 2% | 24th Jan. 2011 | 6th Feb. 2011 |
| Online Assignment 1* | 14% | " " | " " |
| Online Assignment 2* | 14% | " " | " " |
| Final Exam (2 hours) | 70% | April/May 2011 - date to be announced | |

*Visit the "myelearning" website <http://myelearning.sta.uwi.edu/login/index.php> and logon to ECON 1002 to access the online assignments and quizzes.

*Assignments will be open at 12.01am (one minute past midnight) on the opening date of the assignment and will close at 11.59pm on the closing date of the assignment. Students **must be completely registered** (including financial clearance) in order to have access to the online assignments. If you have not completed your registration please seek to do so before the online assignments open.

A Note on Cheating

Please note that **UWI Examination Regulation No. 97** states that *“Cheating shall constitute a major offence is any attempt to benefit one’s self or another by deceit or fraud. Plagiarism is a form of cheating is the unauthorized and/or unacknowledged use of another person’s intellectual effort and creations howsoever recorded”*

Please note that **UWI Examination Regulation No. 103** states that *“If any candidate is suspected of cheating, or attempting to cheat, the circumstances shall be reported in writing . . . the Campus Committee on Examinations . . . shall conduct an investigation. If the candidate is found guilty of cheating or attempting to cheat, the Committee shall disqualify the candidate*

from the examination in the course concerned, and may also disqualify him/her from all examinations taken in that examination session; and may also disqualify him/her from all further examinations of the University, for any period of time, and may impose a fine not exceeding Bds\$300.00 or J\$5000.00 or TT\$900.00 or US\$150. . . .”

Please note that pursuant to this, students are required to complete, **sign, and submit The Undergraduate Coursework Accountability Statement** which can be accessed via the UWI website <http://sta.uwi.edu/fsa/lifesciences/documents/accountability.pdf>

TEXTBOOK

Essential:

ECONOMICS 11th edit. 2007. R. G. Lipsey and K. A. Chrystal. Oxford Univeristy Press.

COURSE UNITS AND DESCRIPTIONS

UNIT 1

INTRODUCTION: MACROECONOMIC ISSUES AND MEASUREMENT

- a. What is macroeconomics?
- b. National Income Accounting: national output concepts; GDP, GNP, value added, nominal versus real national income
- c. Circular flow.

In this unit we will discuss the major difference as well as the links between micro and macro economics. We will then discuss what macroeconomics means within the Caribbean context and highlight some of the differences between this and the non-Caribbean context. The relationship between the major elements of the macroeconomic system will then be explained with particular emphasis on the concept of National Income.

Reference: L&C: Chapter 15.

UNIT 2

MACRO-ECONOMIC EQUILIBRIUM: INCOME DETERMINATION IN THE SHORT RUN

- a. Key assumptions
- b. Consumption and Savings
- c. Investment
- d. Government Spending and taxes
- e. Net Exports
- f. The Multiplier and Income Determination

In this unit we will introduce the traditional approach to explaining the way in which national income is determined. The unit will develop the concept of the multiplier. The limitations of this approach in understanding the Caribbean experience will also be discussed.

Reference: L&C: Chapters 16 & 17.

UNIT 3

MACRO-ECONOMIC EQUILIBRIUM: PRICE DETERMINATION

- a. Aggregate Demand, Aggregate Supply, and Business Cycles
- b. Factors that influence Aggregate Demand
- c. The Aggregate Demand and Aggregate Supply curves
- d. The Price Level
- e. GDP Gaps

FISCAL POLICY

- a. Fiscal Policy and Aggregate Demand

In this unit the focus shifts from income to price determination. Students will be introduced to the concepts of aggregate demand and supply shocks and will be encouraged to explore the links between the aggregate expenditure concepts of the previous unit and the price level.

This unit also introduces the notion of macroeconomic policy – in particular, the notion of fiscal policy. Assuming that income and price stability are key objectives we will discuss how decision making in the public sector can make a difference to macroeconomic outcomes.

Reference: L&C: Chapters 18 & 19.

UNIT 4

MONEY, INFLATION AND MONETARY POLICY

- a. Money; functions and creation
- b. Inflation; causes, impact and measurement
- c. Inflation experience in the Caribbean
- d. Monetary policy and Central Banks in the Caribbean

This unit extends the notion of macroeconomic policy to cover the role of money in the system. After a basic discussion of the nature and functions of money and a description of how money is created in the economic system the unit will move to the important question of inflation—changes in the price level through time. We will examine the reasons for changes in the price level as well as the consequences of these changes. The unit will also seek to familiarize student with how the Caribbean has fared with inflation and will end with a discussion of monetary policy.

Reference: L&C: Chapters 20, 21 & 24.

UNIT 5

UNEMPLOYMENT

- a. Definition and measurement of unemployment
- b. Impact of unemployment on the economy
- c. Unemployment experience and response in the Caribbean
- d. The concern with poverty and income distribution

The phenomenon of unemployment is approached first from a measurement perspective and then from an analytical perspective. Although the discussion will treat with a number of issues which arise more clearly in a developed country context – the links with output and inflation, for example, - we will attempt to use the Caribbean experience and response to deepen the student's understanding of the phenomenon.

Reference: L&C: Chapter 25.

UNIT 6

ECONOMIC GROWTH AND DEVELOPMENT IN THE CARIBBEAN

- a. Review of GDP growth experiences of Caribbean countries
- b. Measuring economic welfare: HDI etc.
- c. Economic explanations of growth and restraints on economic development
- d. Development policies

The issues of growth and development are central to the macroeconomic experience of the Caribbean. The unit will begin with a review of the experience in this part of the world but will then proceed to identify the principles which govern these two outcomes in a range of countries. The unit will end on the question of measurement since this will be important in understanding the role that macroeconomic policy might play.

Reference: L&C: Chapter 26.

UNIT 7

EXCHANGE RATES AND THE BALANCE OF PAYMENTS

- a. What is the Exchange Rate?
- b. Structure of the Balance of Payments(BOP) Account
- c. The determination of the Exchange Rate
- d. The significance of BOP equilibrium/disequilibrium

In one sense the Balance of payments can be seen as the Achilles' Heel of the economies of the Caribbean. The main aim of this unit will be to explain why this might be so. In order to do this

the unit will treat with the nature and the determination of the Exchange Rate as well as with the structure of the Balance of Payments account.

Reference: L&C: Chapter 22.

UNIT 8

INTERNATIONAL TRADE AND TRADE POLICY

- a. Gains from trade – a theoretical viewpoint
- b. The role of trade in economic development – CARICOM on stage
- c. Free Trade and Protection – two sides of the same coin?
- d. The new trading environment – implications for the Caribbean

In this unit students will be exposed to the basic economic reasoning which justifies international trade. This will be followed by a discussion of trade in the development process – is it the engine or the lubrication? Finally the unit will consider free trade and protection within a Caribbean environment and will discuss the future of the Caribbean within the new international trading system.

Reference: L&C: Chapter 27.

COURSE SCHEDULE

| Week | Activities |
|-------------|--|
| 1 | Registration for Lectures and Tutorials: use “myelearning”; Baseline Quiz; |
| 2 | Unit 1 Lecture; Baseline Quiz; |
| 3 | Unit 2 Lecture; |
| 4 | Unit 2 Lecture; Tutorial; |
| 5 | Unit 3 Lecture; Tutorial; |
| 6 | Unit 3 Lecture; Tutorial |
| 7 | Unit 4 Lecture; Tutorial; Online Assignment 1 |
| 8 | Unit 4 Lecture; Tutorial; |
| 9 | Unit 5 Lecture; Tutorial; |
| 10 | Unit 6 Lecture; Tutorial; Online Assignment 2 |
| 11 | Unit 7 Lecture; Tutorial; |
| 12 | Unit 8 Lecture; Tutorial; |
| 13 | Review; Q&A; Tutorial; |