

# **ECONOMIC POLICY II ECONOMICS 2289G-001**

Department of Economics  
Western University

Prof. James Davies  
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January 2019  
Office Hours:  
M: 12:00-1:00  
W: 4:00-5:00

Class Hours: M 9:30-10:30; W 9:30-11:30

Classroom: MC 17

Course Website: <https://owl.uwo.ca/portal>

Undergraduate Inquiries: 519-661-3507 ([econugrd@uwo.ca](mailto:econugrd@uwo.ca))

## **Registration**

You are responsible for ensuring you are registered in the correct courses. If you are not registered in a course, the Department will not release any of your marks until your registration is corrected. You may check your timetable by using the Login on the Student Services website at <https://studentservices.uwo.ca/secure/index.cfm>. If you notice a problem, please contact your home Faculty Academic Counsellor immediately.

## **Prerequisite and Antirequisite Notes**

The prerequisite for this course is **Economics 2220A/B**. The antirequisites are **Economics 2139F/G, Economics 2140E, Economics 3319F/G**.

You are responsible for ensuring that you have successfully completed all course prerequisites, and that you have not taken an anti-requisite course. Lack of pre-requisites may not be used as a basis for appeal. If you are found to be ineligible for a course, you may be removed from it at any time and you will receive no adjustment to your fees. This decision cannot be appealed.

If you find that you do not have the course prerequisites, it is in your best interest to drop the course well before the end of the add/drop period. Your prompt attention to this matter will not only help protect your academic record, but will ensure that spaces become available for students who require the course in question for graduation.

## **Course Objectives:**

This is an essay course dealing with issues in contemporary macroeconomic policy. Chapters from the textbooks, as well as other assigned reading and current events as reported in the media, will be discussed in class. It is important that students keep up with their reading in order to be able to participate properly.

## Learning Outcomes:

Students will be able to:

- use data from the national and public accounts and other sources to explain the level and growth of the government deficit, national debt, and GDP, as well as the level and changes in employment and unemployment
- use data from central bank websites, the International Monetary Fund, and the Economist Intelligence Unit to outline monetary policy and inflation
- explain the principles of monetary policy and fiscal policy
- analyze and explain the links between interest rate policy, inflation, unemployment, GDP and the exchange rate
- understand and explain the effects of fiscal policy on macroeconomic performance
- explain the causes of the Global Financial Crisis of 2008-09
- analyze how Canadian policy makers should respond to external shocks in order to minimize damage to our macroeconomy

## Texts:

There are three textbooks for this course:

Ben S. Bernanke (2013), *The Federal Reserve and the Financial Crisis*, Princeton: Princeton University Press. - - **BB**

Paul Krugman (2008), *The Return of Depression Economics and the Crisis of 2008*, W.W. Norton & Company, New York - - **PK**

James A. Dorn (2018), *Monetary Policy in an Uncertain World*, Cato Institute, Washington D.C. - - **JD**

**Assessment:** Your course mark will be computed as follows:

Participation	10%
First Midterm	15%
Second Midterm	15%
Essay	30%
Final Exam (cumulative)	30%

First Midterm: Wednesday, February 6 (in class time)

Second Midterm: Wednesday, March 6 (in class time)

Essay: (2500-3000 words)

due **no later than Monday, April 8** in class

Essays are to be submitted in hard copy and also electronically to [jdavies@uwo.ca](mailto:jdavies@uwo.ca) as email attachments. The hard copy should be submitted in class. Electronic copies should be provided as WORD documents, minimum font size 11, and 1.5 spaced.

**Essay Topics:** Students may select from a list that will be provided, and must inform me by email of their choice of topic by Friday, February 1<sup>st</sup>. Students are invited to see me in my office hours to discuss their essay topic and appropriate references.

**Participation: Participation:** To assist in the evaluation of participation, students will provide a self-report at the end of the term on a form that will be provided, indicating the number of classes they missed, how often they asked questions in class, how often they responded to questions posed to the class by the instructor, and any other contributions they have made to the success of the course.

**Attendance Requirement:** Attendance is required. Students with unsatisfactory attendance may not be allowed to write the final exam. Students who are absent for more than two consecutive classes should provide a doctor's note, or other satisfactory evidence that the absence was unavoidable.

## *Course Contents and Required Readings*

All readings listed in the course contents below are required. Any handouts provided in class are also required reading.

### **I. Macroeconomic Policy: The Basics (Weeks 1 - 4)**

- **Chapter 1 of Laidler, David E.W. and William B.P. Robson (2004), *Two Percent Target: The Context, Theory, and Practice of Canadian Monetary Policy since 1991*, C.D. Howe Institute, Toronto - - available at:  
[https://www.researchgate.net/publication/23799591\\_Two\\_Percent\\_Target\\_Canadian\\_Monetary\\_Policy\\_Since\\_1991](https://www.researchgate.net/publication/23799591_Two_Percent_Target_Canadian_Monetary_Policy_Since_1991)**
- **Bank of Canada documents from their website** – as assigned
- **Expectations Augmented Phillips Curve Notes**
- **Deficit and Debt Notes**
- **IS-LM Model Notes**

### **II. International macroeconomic policy up to early 2000s (Weeks 5 – 7)**

- **PK** Chs. 1 – 7
- **BB**, Chs. 1 & 2
- peso crisis in Latin America, 1994-95
- Stagnation in Japan since 1990
- Behavior of the Federal Reserve before WWII and from WWII up to early 2000s
- Asian financial crisis 1997-98
- Collapse of currency board in Argentina
- Dot-com bubble burst and U.S. recession of 2001-02
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### III. The Global Financial Crisis of 2008-09: Causes and Consequences (Weeks 8 - 9)

- **PK**, Chs. 8 & 9
- **JBT**, Chs. 4 & 5
- **BB**, Ch. 3
  
- U.S. housing market - - subprime mortgages, securitization, collateralized debt obligations (CDOs), Fannie Mae and Freddie Mac
- Gambling on Wall Street - - Credit Default Swaps (CDSs), hedge funds, the investment banks, AIG, rating agencies
- Role of financial deregulation
- Savings glut?
- Role of Monetary policy in causing crisis?
- Collapse of Lehman Brothers and beginning of stock market crash, Fall 2008
- Scramble to rescue world financial system and economy 2008-09
- Role of central banks and treasuries in combatting crisis
- Role of fiscal policy: stimulus necessary?

### IV. Macroeconomic Policy since the Global Financial Crisis (Weeks 10-12)

- **BB** Ch. 4
- **Whalen & Reichling**, “The Fiscal Multiplier and Economic Policy Analysis”, *Contemporary Economic Policy*, October 2015.
- **Dorn (JD)**: Chs. 1, 9, 12, 16
- Monetary policy
  - o Conventional policy
  - o Quantitative easing
  - o Monetary rules
- Fiscal policy
  - o Stimulus: necessary or unnecessary?
  - o Effects of tax cuts vs. spending increases
  - o Impact of deficits on national debt