| Course Code: ECON 302 | Course Title: Advanced Macroeconomic Theory |
|---|---|

**Course Type (GED/Core/Elective)**: Core
**Year/Level/Semester/Term**: 3rd Year
**Academic Session**: 2021-22 & 2022-23
**Course Teacher/Instructor**:
**Pre-requisite (if any):** ECON 102
**Credit Value**: 04
**Contract Hours:** 60

**Course Rationale**: In modern times economies are interlinked through both goods market and money market. As a result, the effects of a business cycle in a country tend to propagate to other countries. Formulation of macroeconomic policies thus requires the knowledge of the nature of international dependence. Understanding the causes of business cycles and long-run economic growth makes economic policies more effective.

**Course Objective**: The purpose of this course is to provide understanding of how economic shocks and polices originating in one region affect economic outcomes in other regions. Investigation of the effectiveness of policies under various economic environments is also an objective of this course.

**Course Learning Outcomes:** After successful completion of the course, students will be able to:

1. understand the causes of economic fluctuations;
2. design polices to smooth out business cycles;
3. understand the theoretical debate among macroeconomists concerning the shape of the aggregate supply curve;
4. comprehend real business cycles and its implications for policies; and
5. understand the sources of wage rigidities.

**CLOs Mapped to PLOs**

| CLO/PLO | PLO1 | PLO2 | PLO3 | PLO4 | PLO5 | PLO6 | PLO7 | PLO8 | PLO9 |
|---|---|---|---|---|---|---|---|---|---|
| CLO 1 | 1 | 2 | 2 | 2 | 1 | 1 | 2 | 2 | 2 |
| CLO 2 | 0 | 0 | 2 | 3 | 3 | 3 | 2 | 2 | 3 |
| CLO 3 | 1 | 3 | 1 | 1 | 2 | 1 | 2 | 2 | 2 |
| CLO 4 | 2 | 2 | 0 | 2 | 2 | 0 | 2 | 1 | 3 |
| CLO 5 | 1 | 2 | 1 | 3 | 1 | 0 | 2 | 3 | 3 |

**Course Contents**

| Topic | Content Summary | Teaching Strategies/Tools | In-Class Assessment | #Class Hours | CLOs |
|---|---|---|---|---|---|
| 1 | **The Open Economy Model**: Market for foreign exchange; Exchange rate regimes; Balance of Payments; Capital mobility; derivation of the BoP curve; Policy debates. | **Strategies**: Verbal and graphical exposition. **Tools**: Books; Handouts; Multimedia; Online resources | Q&As Quizzes Homework Assignments Presentations Tutorials | 10 | 1, 2 |
| 2 | **Demand for Money**: Quantity Theory; Friedman's new quantity theory; Portfolio Theory. | **Strategies**: Verbal, graphical and mathematical exposition. **Tools**: As above | As above | 6 | 1, 2 |
| 3 | **Supply of Money**: $M_1, M_2, M_3, M_4$. | As above | As above | 4 | 1, 2 |

| 4 | **The New Classical School:**<br>**a. Three Underlying Hypotheses**:<br>Rational expectations; Continuous market clearing; Aggregate supply hypothesis.<br>**b. Important Policy Conclusions**: Policy ineffectiveness proposition; Real costs of disinflation; Dynamic time inconsistency; Credibility and monetary rules; Lucas' critique of econometric policy evaluation.<br>**c. An Overall Assessment of the New Classical Models** | **Strategies**: Verbal and graphical exposition.<br>**Tools**: As above | As above | 08 | 2, 3 |
|---|---|---|---|---|---|
| 5 | **The Real Business Cycle School**<br>**a.** Theoretical and Empirical Weaknesses of the New Classical Models: From monetary to real business cycle theory; Cycles vs. random walks; Supply side shocks; Technological shocks; Intertemporal labor substitution; Real business cycle AD and AS model; Econometric vs. calibration method.<br>**b.** Policy Implications of RBC Theory | As above | As above | 10 | 2, 3, 4 |
| 6 | **The New Keynesian Economics:**<br>**a**. Core Propositions<br>**b**. Nominal wage and price rigidity; Real rigidities and their sources; New Keynesian business cycle theory; Hysteresis and Unemployment<br>**c**. Criticisms and assessment | As above | As above | 10 | 2, 3, 5 |
| 7 | **The Economy in the Very Long Run:**<br>Overview of long-run economic growth, Growth accounting, Solow growth model, Harrd-Domar model. | As above | As above | 8 | 1, 2 |

**Class Schedule:**

**Lesson Plan**

| Week(s) | Topic(s) | #Classes | CLO(s) | Remarks |
|---|---|---|---|---|
| **1 – 5** | 1 | 1 – 10 | 1, 2 | |
| **6 – 8** | 2 | 11 – 16 | 1, 2 | |
| **9 – 10** | 3 | 17 – 20 | 1, 2 | *Class Test 1*: (**Topics 1 & 2**) 17th Class |
| **11 – 14** | 4 | 21 – 28 | 2, 3 | |
| **15 – 19** | 5 | 29 – 38 | 2, 3, 4 | *Class Test 2*: (**Topics 3 & 4**) 29th Class) |
| **20 – 24** | 6 | 39 – 48 | 2, 3, 5 | |
| **25 – 28** | 7 | 49 – 56 | 1, 2 | *Class Test 3*: (**Topics 5 & 6**) 49th Class |
| **29 – 30** | 1 - 7 | 57 – 60 | | *Review* |

**Overall Evaluation Policy:**

a. **Continuous Internal Evaluation (CIE): Marks - 00**

b. **Year-End Examination (YEE): Marks - 100**

| Bloom's Category | Marks (100) |
|---|---|
| **Remember** | **20** |
| **Understand** | **30** |
| **Apply** | **20** |
| **Analyze** | **10** |
| **Evaluate** | **10** |
| **Create** | **10** |

c. **Grading Scheme:** *As in Section 19*

**Policy for Make-Up Classes:**

- Utilize the open slots in consultation with students
- Swap classes with colleagues

*Basic Text*

1. Branson, W. H. (2006). *Macroeconomic Theory and Policy*. A.I.T.B.S.

*Recommended References*

1. Dornbusch, R., Fischer, S., & Startz, R. (2018). *Macroeconomics*. McGraw-Hill Education.
2. Greenaway, D. (1992).*Current Issues in Macroeconomics*. MacMillan.
3. Heijdra, B. J., & Ploeg, F. V. D. (2009). *The Foundations of Modern Macroeconomics*. Oxford University Press.
4. Leslie, D. (1993). *Advanced Macroeconomics: Beyond IS/LM*. McGraw-Hill.
5. Phelps, E. S. (2015). *Seven Schools of Macroeconomic Thought*. Oxford University Press.
6. Romer, D. (2012). *Advanced Macroeconomics* (4th ed.). McGraw Hill.

*Other Resources*

- Online video lectures
- Course-packs
- Handouts