



Independent Study | in Idaho

Providing independent study opportunities for more than 40 years.

ECON 201
Principles of
Macroeconomics



The University of Idaho in statewide cooperation with
Boise State University — Idaho State University — Lewis-Clark State College

Course Guide

Independent
Study | in Idaho

Self-paced study. Anytime. Anywhere!

Economics 201 Principles of Macroeconomics

University of Idaho
3 Semester-Hour Credits

Prepared by:
Steven Peterson
Clinical Assistant Professor of Economics
University of Idaho

RV: September 2014
3-Econ 201
Copyright Independent Study in Idaho/Idaho State Board of Education

Table of Contents

Welcome	1
Policies and Procedures	1
Course Description	1
Course Materials	1
Course Delivery	1
Course Introduction	1
Course Objectives.....	2
Lessons	3
Exams.....	4
Grading	4
About the Course Developer.....	4
Contacting Your Instructor	5
Assignment Submission Log	6
Lesson 1: The Beginning	8
Lesson 2: Demand and Supply.....	14
Exam 1 Information	21
Lesson 3: Macroeconomics: The “Nuts and Bolts”	22
Lesson 4: Inflation and Unemployment	30
Lesson 5: Economic Growth, Savings, and Investment	38
Exam 2 Information	46
Lesson 6: Money and Banking.....	47
Lesson 7: The Basic Macro Model	53
Lesson 8: The Heart of Macroeconomics	62
Exam 3 Information	70
Lesson 9: Monetary Policy.....	71
Lesson 10: International Economics.....	77
Exam 4 Information	83

Econ 201: Principles of Macroeconomics

3 credits: UI

Welcome

Whether you are a new or returning student, welcome to the Independent Study in Idaho (ISI) program. Below, you will find information pertinent to your course including the course description, course materials, course objectives, as well as information about assignments, exams, and grading. If you have any questions or concerns, please contact the ISI office for clarification before beginning your course.

Policies and Procedures

Refer to the ISI website at www.uidaho.edu/isi and select *About ISI Policies* for the most current policies and procedures, including information on setting up accounts, student confidentiality, exams, transcripts, course exchanges, refunds, academic integrity, library resources, and disability support and other services.

Course Description

Organization and operation of American economy; supply and demand, money and banking, macroeconomic analysis of employment, aggregate output and inflation, public finance, and economic growth. UI students: May be used as general education credit in J-3-d as a social science. Econ 201 and Econ 202 may be taken in either order. Econ 201 or Econ 202 carry only two credits after Econ 272.

Required: Internet access

10 graded assignments, 4 proctored exams

Students may submit up to 3 assignments per week. Before taking exams, students MUST wait for grades and feedback on assignments, which may take up to three weeks after date of receipt by the instructor.

ALL assignments and exams must be submitted to receive a final grade for the course.

Course Materials

Required Course Materials:

Parkin, Michael. *Macroeconomics*. 11th Ed. Prentice Hall: 2013. ISBN: 9780133020250

Course Delivery

All ISI courses are delivered through Canvas, an online management system that hosts the course lessons and assignments and other items that are essential to the course.

Course Introduction

Welcome to my world of economics. This course examines an important branch of economics called macroeconomics, which analyzes the economy as a whole. Economists specializing in macroeconomics study the aggregate macro-economy and focus on indicators such as gross domestic product, U.S. unemployment, interest rates, inflation rates, money supply indicators, industrial production, inventories, and many others. The macroeconomist examines information and statistics which are tallied across numerous markets and across a virtually infinite number of decision-makers. This

approach differs from microeconomics, another major branch of economics which focuses on the behavior of individual decision-makers and markets.

Macroeconomics has been “front and center” of public policy debates in the U.S. since the 2008 financial crisis and the subsequent deep and devastating recession, the worst since the Great Depression of the 1930s. A policy branch of macroeconomics called Keynesian economics has seen a mini revival resulting from the crisis and recession. In this course, we will discuss the causes of the recession and policy debates.

The roots of macroeconomics can be traced to before the time of Adam Smith, the founder of modern economics (who published *The Wealth of Nations* in 1776), yet the statistical tools needed for real macroeconomic analysis has only been available since World War II. The Great Depression in the 1930s made politicians and economists painfully aware that they needed better analytic tools and more information on the macro-economy in the United States. Since that time, the Federal Government has developed an immense database consisting of virtually every conceivable measure of economic activity. In addition, the government conducts sophisticated statistical analysis in its examination of economic activity.

The government publishes information, for example, on the following: the composition of households in the U.S., the composition of firms, output statistics on all production in the U.S., money supply statistics, measures of inflation, measures of unemployment, statistics on exports and imports, statistics on investment, etc. You will make use of many of these statistics in your analysis of economic events as you progress through this course.

Your decision to undertake a correspondence course places you in a special category of student. I have found, on average, that correspondence students who complete the course are more motivated and better students than those on campus. The reason is the self-motivation and discipline needed to complete a correspondence course.

Course Objectives

Broad Objectives

- Facilitate critical thinking by exploring the analytical tools derived from economic theory and its applications.
- Apply those analytical tools to macroeconomic issues.
- Enhance general student intrapersonal and interpersonal intellectual awareness.
- Facilitate and improve communication skills.

Specific Objectives

- To introduce the student to basic economic thinking and analysis.
- To acquaint the student with economic concepts, terminology, and logic.
- To familiarize the student with the tools needed for examining important economic models such as supply and demand, market failure, government failure, externalities, the role of private property rights, and free trade.
- To familiarize the student with the incentives facing each individual, how individuals make economic choices, and how these choices lead to markets.
- To introduce to the student public decision theory and how governments operate. The incentives and choices facing public decision-makers will be examined.
- To familiarize the student with the debate over the appropriate role and function of government in the economy and its effect on private decision-making.

- To familiarize the student with the tools needed for examining important economic variables such as real output, inflation, and unemployment.
- To introduce to the student the various economic schools of thought and how these schools influence public policy. You will examine the theories of Keynesian economists, monetarists, supply-side economists, rational expectations economists, and others.
- To familiarize the student with the growing global economy and how the economic future of the nations of the world are intertwined.
- To introduce to the student the concepts and measures of economic growth, technological development, and human capital development.
- To introduce to the student important topics in development economics and Third World development issues.
- To introduce to the student the various policy tools available to decision-makers for influencing the economy and the rationale of their use.
- To introduce to the student important topics of the decade of the 2000s, the collapse of the financial markets, the recession, and the changes of the political landscape with the election of Barack Obama to the presidency.
- To illustrate the importance and relevance of economics to the student's life and future career.

Lessons

Overview

Each lesson includes lesson objectives, an introductory lecture, supplemental materials, sources, and a two-part assignment.

Assignments associated with each lesson consist of multiple choice questions and essay questions. Each lesson is worth 30 points each: the multiple choice questions are worth 20 points and the essay questions are worth 10 points.

Generally speaking, correspondence study requires typed lessons. I will accept, however, either typed or hand-written lessons, whichever is easiest for you. For the graphing portion of the lessons, I recommend drawing them by hand, scanning them using a printer. **It is best to submit the Essay/Graphing portions as one PDF document and then upload it to Canvas.**

If you are typing the lessons, simply record the multiple-choice question number and the letter answer that best fits. Do not re-type the question itself.

For the essay questions, if you type the lessons, do not type the questions themselves. Just include the question number and your answer. If you are handwriting the lessons and using the form provided, you may write on the back of the assignments or include an extra page if needed. I am looking for solid, complete answers on the essay questions, but do not feel compelled to write a book. I will give you feedback on your essay questions as you progress through the course.

Some lessons (i.e. lectures) in your course guide include supplemental materials. Most of the lectures, however, are a review and summary of the textbook material. They provide a concise overview and review of the key issues covered in the text. In all cases you should read the chapter first before the lecture in the course guide. These lectures are designed to assist you in "digesting" and understanding the concepts covered in the text.

I am most concerned that you understand the concepts of each lesson. Thus, you should adopt a form that assists you in that endeavor. For some students, learning is enhanced when they type the lessons because it helps them organize their thoughts. Other students find typing a learning impediment.

Study Hints:

- Keep a copy of every lesson submitted.
- Complete all reading assignments.
- Web pages and URL links in the World Wide Web are continuously changing. Contact your instructor if you find a broken Web page or URL.
- Read the textbook readings as a first pass through the material. Choose a quiet setting, perhaps with a cup of coffee or your favorite soft drink.
- The next step is to read the lesson and lecture in the Course Guide. Carefully consider how this information fits in with the textbook material. Review the key objectives of each lesson.
- Now do the assignments. These will help you understand the important issues in each chapter. Note the importance of graphing. Be sure to practice these graphs. It takes work to get them down cold!
- Set a schedule allowing for completion of the course one month prior to your desired deadline.

Refer to the **Course Rules** in Canvas for further details on assignment requirements and submission.

Exams

- You must wait for grades and comments on assignments prior to taking subsequent exams.
- For your instructor's exam guidelines, refer to the **Course Rules** in Canvas.

Refer to Grading for specific information on assignment/exam points and percentages.

Grading

The course grade will be based upon the following considerations:

- This course has ten (10) graded lessons and four (4) proctored exams. Each lesson has two assignments: Essay/Graphing Questions and a Multiple Choice Quiz.
- Combined the assignments are worth 30% and exams are worth 70% of your final grade.

The final course grade is issued after all assignments and exams have been graded.

Acts of academic dishonesty, including cheating or plagiarism are considered a very serious transgression and may result in a grade of F for the course.

Refer to the ISI Policies and Procedures for information about confidentiality of student grades, course completion, time considerations, and transcript requests.

About the Course Developer

I am a Research Economist at the University of Idaho and a Clinical Assistant Professor in Economics in the Department of Business at the University of Idaho, where I have been employed for 20 years. My teaching interests are introductory macroeconomics, microeconomics, money and banking, and

intermediate macroeconomics. My research interests are regional economic development and impact analysis. I have conducted studies on the economic impacts to local Idaho communities from reductions of timber harvests on federal forests, the economic impact of colleges and universities, the economic impacts of inland ports and dam removal to save salmon, tribal gaming, and other interesting subjects. I look forward to assisting you in your exploration of economics.

Contacting Your Instructor

Instructor contact information is posted in the *Course Rules* on your Canvas site.

Econ 201 Assignment Submission Log			
Use this log to help you keep track of your progress through the course.			
Lesson	Assignments	Date Submitted	Grade
1: The Beginning	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
2: Demand and Supply	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
It is time to take Exam 1.			
Exam 1			
3: Macroeconomics: The “Nuts and Bolts”	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
4: Inflation and Unemployment	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
5: Economic Growth, Savings, and Investment	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
It is time to take Exam 2.			
Exam 2			
6: Money and Banking	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
7: The Basic Macro Model	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
8: The Heart of Macroeconomics	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
It is time to take Exam 3.			
Exam 3			
9: Monetary Policy	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		

10: International Economics	Essay/Graphing Questions (10 pts) Multiple Choice Quiz (20 pts)		
It is time to take the Final Exam.			
Final Exam			

Lesson 1 The Beginning

Humor in Economics

President Truman once said he wants an economic adviser who is one handed. Why? Because normally the economists giving him [conflicting] economic advice state “On one hand and on the other hand...”

Source: <http://netec.mcc.ac.uk/JokEc.html>

Web Links

[Top 200 Influential Economics Blogs: Aug 2013
http://www.onalyticaindexes.com/2013/07/31/top-200-influential-economic-blogs-aug-2013-2/](http://www.onalyticaindexes.com/2013/07/31/top-200-influential-economic-blogs-aug-2013-2/)

List of Nobel Prize winners in economics:
http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/

Lesson Objectives

- Define economics, the economic problem, incorporating the relationship between limited resources and unlimited wants.
- Discuss the concept of marginal analysis, marginal benefits and marginal costs.
- Identify types of factors of production types of income associated with various factors.
- Explain the concepts of allocative and productive efficiency and how they differ.
- Construct a production possibilities curve when given appropriate data.
- Illustrate economic growth, the unemployment and underemployment of resources, allocative and productive efficiency, and increasing costs using a production possibilities curve.
- Highlight the main features of pure capitalism, command economy, mixed and traditional systems.
- Identify the major groups of decision makers and the major markets in a market system graphically, using the circular flow diagram.
- Differentiate between product and resource markets.

Reading Assignment

Parkin chapters one and two, What is Economics? The Economic Problem, (skip gains-from-trade portion of chapter 2), pages 1-52.

Important Terms

economics
markets
positive versus normative economics
factors of production
circular flow model
allocative versus productive efficiency

marginal analysis
ceteris paribus
economic model
production possibility model
opportunity costs
macroeconomics vs. microeconomic

Lecture

Introduction

The economics profession is a pie that can be sliced in many ways...

Economics is a discipline that examines the allocation of scarce resources to consumers with unlimited wants and desires. The two key focal points of economics are the facts that all economic resources are scarce and that consumer wants and desires are unlimited (i.e. there are competing uses). These points create a conflict, a tension between the unlimited wants and desires by consumers and the scarcity of goods and services. Thus scarcity forces choice.

Usually, when someone thinks of economics (and economists), he or she thinks of money and/or the stock market. In fact, only a small minority of economists specialize in finance or securities. The principal focus of economics is on human welfare. The quest to improve the human condition leads economics into virtually all aspects of peoples' lives and into virtually every profession. In fact, John T. Wenders, a retired economist at the University of Idaho, labeled economics an imperial science, frequently invading (i.e., offering analysis and insight to) many other professions. Economics as a discipline is perhaps second only to the granddaddy of them all—philosophy—in its scope.

Economics is a way of thinking, a method of analysis. Economics offers a unique viewpoint of the essential elements of the human condition.

Economics is part science. That is, it is based on some fundamental, predictable elements of human behavior. One such assumption, for example, is that people seek to maximize their own utility or welfare. Science also plays an important role in economics where the human world and the physical world come together, such as in the production of goods and services, resource development, technological improvement, and production efficiency. Economics is also subject to the unpredictable elements of human behavior, however, which distinguishes it from professions such as chemistry or physics. Economics is therefore a social science.

The purpose of the first two chapters is to introduce you to the language and concepts of economics. Each of the major professions has its own language (much like a street gang!). Economics is no different. Understanding the language and terminology will greatly assist you in your learning endeavors. Chapter Two introduces you to two important economic models, the production possibility model and the circular flow model. Both have important macroeconomic applications. Be sure you are able to graph the productions possibilities model from numbers and graph the circular flow model as a stylized graph (no numbers).

Written Assignment

Before beginning the first written assignment, refer to the Course Rules and Getting Started in Canvas for your instructor's assignment requirements. Written assignments are submitted through Canvas.

Essay Questions

1. What is the first economic question and its subparts? What is the second economic question?
2. Graphically illustrate a production possibilities schedule from the following table, placing guns on the vertical axis and food on the horizontal axis. b. Illustrate in the graph a point on the graph that is currently unattainable. c. Graphically illustrate a point representing the unemployment of resources on the same graph. d. What is the opportunity cost of increasing butter production from 2 to 3 units? e. Is this a straight line or curved production possibilities model?

Good (Units)

Guns (100,000) 15 14 12 9 5 0

Butter (1,000) 0 1 2 3 4 5

3. Using a stylized graph illustrate productive versus allocative efficiency (see Figure 2.4 in the textbook)
4. Graphically illustrate the combined circular flow diagram and label completely.

5. Watch Episode 1 of the PBS special Commanding Heights: The Battle of Ideas at this link: <http://www.pbs.org/wgbh/commandingheights/hi/story/>. Summarize the economic intellectual battle represented by Friedrich von Hayek and John Maynard Keynes. In your opinion, what relevance does this battle have today?

Multiple Choice

Choose the one alternative that best completes the statement or answers the question.

1. An incentive:
 - A) could be a reward but could not be a penalty.
 - B) could be either a reward or a penalty.
 - C) could be a penalty but could not be a reward.
 - D) is the opposite of a tradeoff.

2. When an economy produces more houses and fewer typewriters, it is answering the _____ part of one of the two big economic questions.
 - A) What?
 - B) For whom?
 - C) How?
 - D) Where?

3. The analysis of the behavior of individual decision-making units is the definition of:
 - A) positive economics.
 - B) normative economics.
 - C) macroeconomics.
 - D) microeconomics.

4. When China builds a dam using few machines and a great deal of labor, it is answering the _____ part of one of the two big economic questions.
 - A) Where?
 - B) What?
 - C) How?
 - D) For whom?

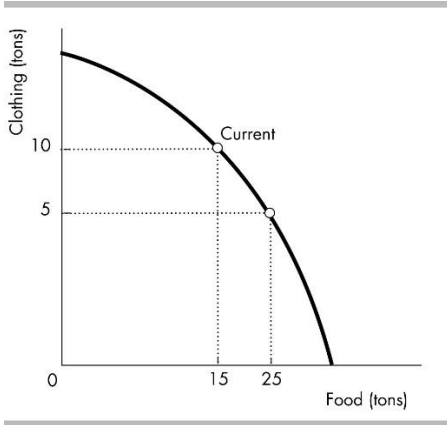
5. In the U.S. economy, which of the following statements is true?
 - A) More goods are produced than services.
 - B) The economy is too complex to determine the proportion of
 - production that is devoted to producing services.
 - C) Production is divided evenly between goods and services.
 - D) More services are produced than goods.

6. In every economic system, choices must be made because resources are _____ and our wants are _____.
 - A) unlimited; limited
 - B) limited; limited
 - C) limited; unlimited
 - D) unlimited; unlimited

7. Which of the following are considered factors of production used to produce goods and services?
 - I. Land
 - II. Labor
 - III. Capital
 - IV. Entrepreneurship
 - A) I, II and III only
 - B) I, II, III and IV
 - C) I and II only
 - D) I and III only

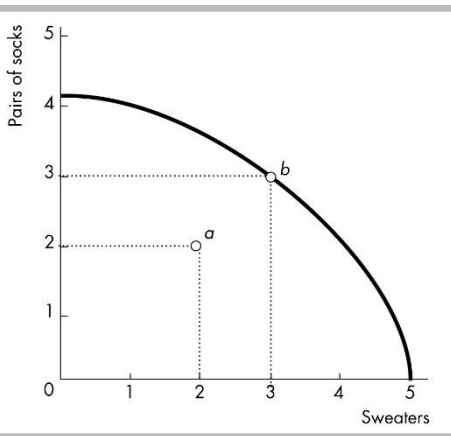
8. Human capital is:
 - A) the skill and knowledge of workers.
 - B) machinery that meets or exceeds federal safety standards for use by humans.
 - C) all capital owned by individuals, but not by corporations or governments.
 - D) all capital owned by individuals or corporations, but not by governments.

9. In economics, the term "capital" refers to:
- A) consumer goods.
 - B) mineral resources.
 - C) the money in one's pocket.
 - D) buildings and equipment.
10. Which of the following questions is NOT a microeconomic question?
- A) Can the Federal Reserve keep income growing by cutting interest rates?
 - B) How would a tax on e-commerce affect eBay?
 - C) Does the United States have a comparative advantage in information technology services?
 - D) What is Britney's opportunity cost of having another baby?
11. Which factor of production earns most income in the United States?
- A) labor
 - B) money
 - C) capital
 - D) entrepreneurship
12. The fact that some people can afford to live in beautiful homes while others are homeless, is most directly an example of an economy facing the _____ part of one of the two big economic questions.
- A) When?
 - B) How?
 - C) For whom?
 - D) Why?
13. Opportunity cost means the:
- A) highest-valued alternative forgone.
 - B) accounting cost minus the marginal benefit.
 - C) accounting cost minus the marginal cost.
 - D) monetary costs of an activity.
14. Production efficiency occurs when production _____.
- A) is at any attainable point
 - B) is on the production possibilities frontier
 - C) is at a point beyond the production possibilities frontier
 - D) is on the production possibilities frontier or inside it
15. The production possibilities frontier is the boundary between:
- A) those combinations of goods and services that can be produced and those that cannot.
 - B) those wants that are limited and those that are unlimited.
 - C) those resources that are limited and those that are unlimited.
 - D) those combinations of goods and services that can be produced and those that can be consumed.
16. Any point on a production possibilities frontier (PPF) itself is:
- A) production efficient.
 - B) equitable.
 - C) inefficient.
 - D) unattainable.



17. The above figure illustrates that if this country wishes to move from its current production point (labeled "Current") and have 10 more tons of food, it can do this by producing:

- A) 10 fewer tons of clothing.
- B) 5 more tons of clothing.
- C) 5 fewer tons of clothing.
- D) 10 more tons of clothing.



18. The opportunity cost of moving from point *a* to point *b* in the above figure is _____.

- A) 3 pairs of socks
- B) 2 sweaters
- C) 3/2 pairs of socks per sweater
- D) Zero

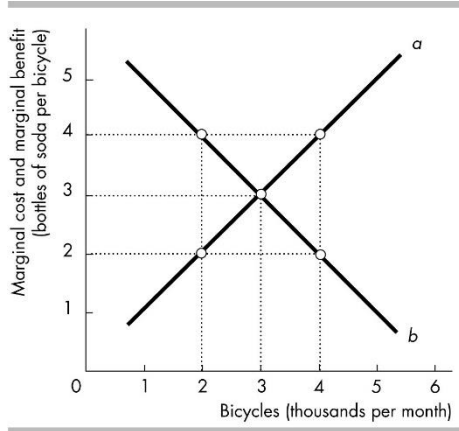
19. Increasing opportunity cost while moving along a production possibilities frontier is the result of:

- A) firms' needs to produce profits.
- B) the fact that it is more difficult to use resources efficiently the more society produces.
- C) the fact that resources are not equally productive in alternative uses.
- D) taxes.

Point	Production of grain (tons)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

20. The table above lists six points on the production possibilities frontier for grain and cars. What is the opportunity cost of producing the 5th ton of grain?

- A) 6 cars per ton of grain
- B) 3 cars per ton of grain
- C) 16 cars per ton of grain
- D) 2 cars per ton of grain



21. In the above figure, the curve labeled *a* is the _____ curve and the curve labeled *b* is the _____ curve.

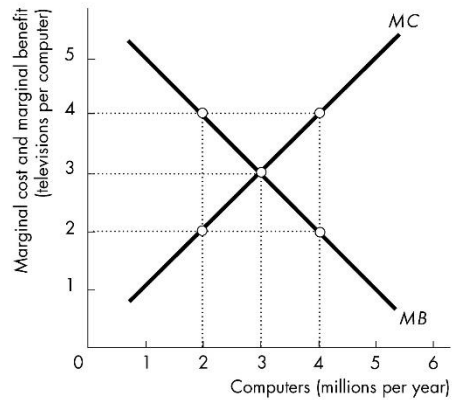
- A) marginal cost; marginal benefit
- B) production possibilities frontier; trade line
- C) marginal benefit; trade line
- D) marginal cost; trade line

22. An expansion of the production possibilities frontier is:

- A) something that has occurred only rarely in history.
- B) proof that scarcity is not a binding constraint.
- C) a free gift of nature.
- D) called economic growth.

23. Technological progress makes the production possibilities frontier:

- A) shift outward from the origin.
- B) become more linear and less bowed.
- C) shift inward toward the origin.
- D) become less linear and more bowed.



24. In the figure above, the allocatively efficient output of computers is:

- A) 2 million per year.
- B) 3 million per year.
- C) the largest amount possible.
- D) 4 million per year.

25. When an economy produces at its allocatively efficient production point,

- A) a society can increase the production of one good only by decreasing the production of some other good that is valued more highly.
- B) a society can increase the production of all goods.
- C) scarcity is not a problem.
- D) resources are not limited.