ECON 2410 – Principles of Macroeconomics (Honors)

Professor: E. Anthon Eff  
Class: BAS S274 • MWF 9:10am – 10:05am  
Office and Hours: BAS N308 • MWF 10:30am – 12:00pm (or by appointment)  
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Honors College:
Please check http://www.mtsu.edu/honors/graduation_requirements.php for current information about graduation requirements from the Honors College. One requirement is that students complete a thesis, which must be begun several semesters before graduation, and which requires that the student find a faculty member to supervise the project.

There are about seven Economics and Finance faculty with experience supervising honors theses. If you are interested in writing on a topic in economics, please talk to me, and I can help you identify the faculty member who would be most knowledgeable about that topic.

For other questions about graduation requirements, you may contact the Honors College advisor, Ms. Laura Clippard (HONR 227; Laura.Clippard@mtsu.edu; 615-898-5464).

Mission of the Jones College of Business:

- Set our students' foundation for life-long learning through high quality learning experiences resulting from quality teaching, classroom interactions, student professional organizations, service learning, and interactions with faculty outside the classroom.

- Further the scope and dissemination of the body of business knowledge through scholarly research that advances our disciplines, enhances teaching/learning, and improves outcomes of for-profit, not-for-profit, and governmental organizations.

- Contribute to the economic development of the region through our outreach programs.
We will produce career-ready undergraduate students, MBA, MAcc, MS, and PhD graduates prepared for career challenges and advancements, significant applied research, and consulting consistent with the expertise of our disciplines.

**Reasonable Accommodations for Students with Disabilities:**

Middle Tennessee State University is committed to campus access in accordance with Title II of the Americans with Disabilities Act and Section 504 of the Vocational Rehabilitation Act of 1973. Any student interested in reasonable accommodations can consult the Disability & Access Center (DAC) website and/or contact the DAC for assistance at 615-898-2783 or dacemail@mtsu.edu.

**Academic Misconduct:**

Middle Tennessee State University takes a strong stance against academic misconduct. Academic Misconduct includes, but is not limited to, plagiarism, cheating, fabrication, or facilitating any such act. For purposes of this section, the following definitions apply:

1. **Plagiarism:** The adoption or reproduction of ideas, words, statements, images, or works of another person as one’s own without proper attribution. This includes self-plagiarism, which occurs when an author submits material or research from a previous academic exercise to satisfy the requirements of another exercise and uses it without proper citation of its reuse.

2. **Cheating:** Using or attempting to use unauthorized materials, information, or study aids in any academic exercise. This includes unapproved collaboration, which occurs when a student works with others on an academic exercise without the express permission of the professor. The term academic exercise includes all forms of work submitted for credit or hours.

3. **Fabrication:** Unauthorized falsification or invention of any information or citation in an academic exercise.

To be clear: going online and taking information without proper citations, copying parts of other student’s work, creating information for the purposes of making your paper seem more official, or anything involving taking someone else’s thoughts or ideas without proper attribution is **academic misconduct**. If you work together on an assignment when it is not allowed, it is **academic misconduct**. If you have a question about an assignment, please come see me to clarify. Any cases of academic misconduct will be reported to the Office of Academic Affairs for violating the academic honesty requirements in the student handbook. They will also result in failure for the course. Remember – ignorance is NOT a defense.

**Lottery Scholarship:**

To retain the Tennessee Education Lottery Scholarship eligibility, you must earn a cumulative TELS GPA of 2.75 after 24 and 48 attempted hours and a cumulative TELS GPA of 3.0 thereafter. A grade of C, D, F, FA, or I in this class may negatively impact TELS eligibility.

If you drop this class, withdraw, or if you stop attending this class you may lose eligibility for your lottery scholarship, and you will not be able to regain eligibility at a later time.

For additional Lottery rules, please refer to your Lottery Statement of Understanding form (http://www.mtsu.edu/financial-aid/forms/LOTFOD.pdf) or contact your MT One Stop Enrollment Counselor (http://www.mtsu.edu/one-stop/counselor.php).
Course Objectives

1) Aid your development as a businessperson. You will learn enough about economic theory to understand how and why financial markets react to new information about macroeconomic variables such as interest rates, government spending, or consumer confidence.

2) Aid your development as a citizen. This course will provide you with some understanding about the U.S. economy, helping you to decide intelligently which economic policies best fit your own preferences regarding America’s future.

Grading: I will give 13 quizzes, each with at least five multiple choice questions. A final exam, consisting of at least 35 slightly reworded questions from the quizzes, will be given on Wednesday, May 4, 10:00-12:00. Thus, there will be at least 65 quiz question (13 x 5) and at least 35 final exam questions, for a total of at least 100 questions. There will be a few extra questions on each quiz and on the final, so the actual total number of questions will be around 125. In addition, each student should turn in a five page, very well-written essay on one of the three recommended books. The essay is worth a maximum of 10 points.

Each correctly answered question, on a quiz or the final exam, counts as one point toward your final grade. A score of 90 and above is an ‘A’; 89 is ‘B+’; 81 to 88 is ‘B’; 80 is ‘B-’; 79 is ‘C+’; 71 to 78 is ‘C’; 70 is ‘C-’; 69 is ‘D+’; 61-68 is ‘D’; 60 is ‘D-‘; and 0 to 59 is ‘F’. There will be no make-up quizzes and no curve—the extra quiz points and essay should provide a sufficient buffer of points to accommodate those times when illness or other problems cause a student temporarily to perform poorly. In a typical honors class, about three-quarters of the students will earn an ‘A’.

Course Format: Principles of Macroeconomics is a lecture course. All material covered on quizzes will be discussed in class. Students are responsible for obtaining the lecture notes.

Course Materials: The course is lecture based, but I recommend that all students have a textbook for background reading. Any textbook will do, including older editions of current textbooks, or inexpensive or free online textbooks. Every student is required to read the Wall Street Journal. Please use this link to order: http://www.wsj.com/studentoffer, and be sure to select “Tony Eff” as the “referring professor” (the MTSU zipcode is 37132).

You are required to read one of the following three books:


Essay: James M. Buchanan graduated from MTSU in 1940, and went on to become a key developer of “Public Choice” theory. One of the most important libertarian economists of the 20th century, Dr. Buchanan won the Nobel Prize in Economics in 1986. About half of the 20 volumes in the Collected Works of James M. Buchanan can be read for free online: http://www.econlib.org/library/Buchanan/buchCContents.html. The recommended reading for this class—Economics from the Outside in—is a readable introduction to his work. Freakonomics looks at some clever research in empirical economics, while Thinking, Fast and Slow is the autobiography of Nobel Prize winner Daniel Kahneman, who has done very interesting work in the intersection of psychology and economics. All three are readable books, and I expect you to read all of the book you choose.

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1 Try a Google search or http://wikieducator.org/Economics_Textbooks_Free_and_Online.
There are rather rigid guidelines for the essay. It should consist of exactly five pages (double-space, 12 point Times New Roman or Helvetica font, 1 inch margins on all sides), and should explain succinctly what Economics from the Outside in has to say. The five page requirement is intended to force you to condense your thoughts into a very concise and readable essay. A good essay is accurate, original, interesting, complete, and coherent. As always, you must take great care to avoid even the appearance of plagiarism.2

Comments

- Keep this syllabus. If you have questions about course requirements, the syllabus is the best source.
- You need to come to every class. If you miss a class, you must make arrangements to obtain notes from another class member. Don’t ask me to clarify a topic covered on a day that you failed to attend class. If you think you will miss more than three classes this semester, please take the course with an instructor who closely follows a textbook, and who gives few exams.
- I have certain expectations about student behavior. Students should pay attention, should take notes, and should put some energy into learning economics. Phones are absolutely forbidden in this class: they should be turned off and put away where they are not visible or accessible. Please, no sleeping, working on material from other classes, reading the paper, or gossiping during the lectures. If you need to leave class early, please let me know before class starts.
- I reserve the right to ask students to retake a quiz. I will invoke that right in cases where there is the slightest doubt regarding academic dishonesty.
- If, for any reason, any time before the final, you wish to drop the course, I will sign a drop slip. But please try to decide on your commitment to this course by the fourth quiz.

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2 If you don’t know what plagiarism is, please check the link on the course website or discuss it with me. Paraphrasing an article or website—even if you provide the correct citation—is plagiarism. The grade for a plagiarized paper is ‘0.’
Following is a tentative list of topics.

1) **What is Economics?**
   a) Types of Economies: Reciprocity, Redistribution, and Markets
   b) Differences between Microeconomics and Macroeconomics
      i) Micro: deductive models assuming people motivated by self-interest
      ii) Macro: circular flow diagram

2) **Supply and Demand**
   a) Product Markets:
      I. Determinants of Demand.
      II. Determinants of Supply.
   b) Government Interference with Markets: Excise Taxes; Price Ceilings and Price Floors
   c) Labor Markets:
      I. Determinants of Supply: Desirability of Occupations; Population Growth; Labor Force Participation Rate; Globalization.
      II. Determinants of Demand: Efficiency and Price of Output.
      III. Unemployment Rate and Tight Labor Markets.
   d) Price Level and Inflation
   e) Financial Markets (stocks, bonds, and foreign exchange)

3) **The Circular Flow Diagram**
   a) Role of Markets: the link with Microeconomics
   b) Measurement of Flows: Output (GDP), Expenditures, Income, and Factor Use
   c) Aggregate Demand: C+I+G+X-M
   d) Aggregate Supply: Factor Use and Productivity
   e) Recessions and Expansions; Leading, Coincident, and Lagging Indicators

4) **Aggregate Demand and Business Cycles**
   a) Fiscal Policy
      i) Taxes and Government Expenditures
      ii) Keynesian Multiplier
      iii) Problems of Fiscal Policy (Lags and the nature of the political process)
   b) Monetary Policy
      i) Origins and functions of money
      ii) Money Multiplier
      iii) Federal Reserve System
      iv) Quantity of Money Equation
      v) Inflation and Interest Rates: the Fed tightrope
      vi) The Autonomy of the Fed

5) **Aggregate Supply and Economic Growth**
   a) Sources of Productivity Growth
      i) Increases in quality of factors (human capital, technological change embodied in physical capital)
      ii) Increases in quantity of capital (interest rates, FDI)
      iii) Changes in institutional environment (Alfred Chandler, deregulation)
      iv) Freer trade in product markets
   b) Government policies to shift Aggregate Supply curve to right
      i) Supply-Side vs Industrial Policy
      ii) Taxes and Subsidies
         a) Evaluation of some current tax policy
         b) What motivates government? (Public choice vs. Cost-benefit)
Sample Quiz

Quiz 1: Please print your name legibly, as you wish to be called____________________________________
Place the correct answer in the following spaces:

1) ______ 2) ______ 3) ______ 4) ______ 5) ______ 6) ______ 7) ______

1) Mad cow disease causes a panic in Britain, shifting the demand curve for British beef dramatically to the _?_. Analysts wonder, what will be the effect on American beef? If Europe looks on U.S. beef as a safe replacement for British beef, then the price of U.S. beef should _?_. If, however, American consumers also become worried about mad cow disease, then the price of U.S. beef should _?_.
   a) left, rise, fall
   b) right, rise, fall
   c) right, fall, rise
   d) left, fall, rise
   e) none of the above

2) Cigarettes cost the U.S. public billions of dollars each year, in terms of higher health insurance premiums and higher expenditures on Medicaid and Medicare. Many analysts therefore advocate a higher cigarette tax, which would shift the _?_ curve for cigarettes _?_ by the amount of the tax. This would have the effect of _?_ the equilibrium quantity of cigarettes consumed and obtaining tax revenue which could be used to subsidize insurance premiums and public health programs, therefore offsetting some of the public costs of smoking.
   a) demand, to the right, increasing
   b) supply, downward, increasing
   c) demand, to the left, decreasing
   d) supply, upward, decreasing
   e) none of the above

3) Many fast-food restaurants hire most of their labor at the minimum wage. If the minimum wage increases, it is likely that the equilibrium price of fast food would _?_ and the equilibrium quantity of fast food would _?_. It is also likely that unemployment among teenagers would _?_.
   a) increase, decrease, increase
   b) decrease, increase, decrease
   c) increase, increase, decrease
   d) decrease, decrease, increase
   e) none of the above

4) When incomes rise, sales for most firms selling _?_ goods rise, causing profits to _?_, and making the demand curve for stocks shift to the _?_, so that stock prices _?_.
   a) inferior, rise, right, rise
   b) normal, fall, left, fall
   c) normal, rise, left, rise
   d) inferior, fall, left, fall
   e) none of the above

5) Suppose that stock traders believe that Cracker Barrel stock prices are the highest that they will ever be (i.e., they will be lower in the future). This will cause the demand curve for Cracker Barrel stock to shift to the _?_, the supply curve for Cracker Barrel stock to shift to the _?_, and the equilibrium price of Cracker Barrel stock to _?_.
   a) right, left, rise
   b) left, right, rise
   c) right, left, fall
   d) left, right, fall
   e) none of the above

6) Suppose that Disney attempts to acquire Pepsico. This causes the _?_ curve for Pepsico stock to shift to the _?_, leading to _?_ in the equilibrium price of Pepsico stock.
   a) demand, right, an increase
   b) supply, left, an increase
   c) demand, left, a decrease
   d) supply, right, a decrease

7) Bond yields can also be called _?_. As bond prices _?_, bond yields _?_.
   a) bond prices, rise, rise
   b) bond prices, rise, fall
   c) interest rates, fall, fall
   d) interest rates, fall, rise