

ECON 202 - Economic Theory II
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Bilkent University
Spring 2006
(Provisional)

Objective of the Course

The aim of the course is to introduce the fundamental concepts of macroeconomics such as national income, economic growth, inflation and unemployment in a unified framework with an emphasis on analytical rigor. We will focus on the role of policy makers, and the implications of their policy choices for the evolution of aggregate economic variables. We will apply models to a variety of specific contexts and problems. The course is designed to develop each student's ability to think both qualitatively and quantitatively when analyzing economic problems. We will follow the chapters of the textbook in order. As we go along, some adjustments may be made and the related information will be given in class.

Textbooks

- Dornbusch, R., Fischer, S. and R. Startz, "Macroeconomics", 9th edition.
Other course related reading materials will be either handed out in class or placed at the reference section in the library.

Grading

- First Midterm examination (Essay/written): 25%,
- Second Midterm examination (Essay/written): 25%
- Final examination (Essay/written): 35%,
- Home works : 15%.

Course Outline

1. Introduction

- (a) Questions and methods in macroeconomics
- (b) Aggregate economic variables: GDP, unemployment, wealth of nations
- (c) Microeconomic foundations

2. National Income Accounting

3. Economic Growth and Policy

- (a) Empirical estimates of growth
- (b) Exogenous Growth Models
- (c) Endogenous Growth Models and Policy
 - i. The AK Model
 - ii. Learning-by-Doing
 - iii. Research and Development
 - iv. Human Capital and education

4. Aggregate Supply and Demand

- (a) The AS and AD curves
- (b) Price adjustment mechanism
- (c) Wages, prices and unemployment
- (d) From Philips curve to the AS curve
- (e) Supply shocks
- (f) Inflation and unemployment
- (g) Policy

5. Money, Interest, Income and Spending

- (a) AD and Equilibrium output
- (b) A formal treatment of the IS-LM model
- (c) Monetary and Fiscal Policies
- (d) International linkages

6. Consumption Theory

- (a) The life-cycle - permanent income theory of consumption and saving
- (b) Consumption under uncertainty

7. Investment Theory

- (a) The stock demand for capital and the flow of investment
- (b) Investment and AS

8. Money, Deficits and Inflation

9. Budget deficits and the public debt

10. Stabilization Policy, Prospects and Problems