ECON10003
Introductory Macroeconomics

SUBJECT GUIDE

Semester 1, 2015

Prepared by
Professor Robert Dixon
Department of Economics
University of Melbourne
Subject Outline

Introduction
Welcome to Introductory Macroeconomics. Having at least a basic knowledge of Macroeconomics is essential in the vast majority of jobs that commerce graduates obtain. Learning these skills can be challenging, but the rewards from doing so are large. It can also be interesting and enjoyable to learn these skills. This subject is both a compulsory subject in the BCom degree and is also required for students majoring in Economics in the BCom and the BA degrees.

Topics to be covered will include: Input-output tables, economic aggregates such as production and employment, the general level of prices and inflation, the exchange rate, interest rates, monetary and fiscal policies, the balance of payments and economic growth. Analysis is particularly directed to current Australian macroeconomic problems and policy issues.

Textbook
The required textbook for this subject is:


Both new and second hand copies of the text are available in the University Bookroom. Be mindful that the library has only a very small number of copies of the textbook in the High Use section. On some topics the 4th edition is very different to the 3rd edition. Where appropriate I will give references to both editions but you will find that sometimes I will only refer you to the 4th edition.

Required readings for those few topics not covered by the required textbook will be provided to students when those topics are reached. These readings will be available for download from the subject’s page in the University’s Learning Management System (LMS).

Learning Outcomes

Subject Objectives
On successful completion of this subject, students should be able to:

- Explain the importance of the circular flow of income to macroeconomics.
- Interpret the meaning and measurement of macroeconomic aggregates such as Gross Domestic Product.
- Explain and use the Keynesian model of national income determination.
- Describe the roles of money and the financial system in the macroeconomy.
- Critically analyse macroeconomic policies appropriate to the achievement of macroeconomic objectives.
- Explain and apply the aggregate demand/aggregate supply model.
- Explain the relation between unemployment and inflation.
- Analyse the factors influencing the balance of payments and the exchange rate.
Generic Skills

In this subject you will have the opportunity to develop important generic skills. These skills are grouped below by level of development in the subject.

**High** level of development: written communication; collaborative learning; critical thinking; synthesis of data and other information; application of theory to practice.

**Moderate** level of development: oral communication; problem solving; team work; interpretation and analysis; evaluation of data and other information; accessing data and other information from a range of sources; receptiveness to alternative ideas.

**Some** level of development: Team work and statistical reasoning.

Awareness Issues

At a broader level, studying this subject will increase your awareness of: the breadth of questions that are investigated within macroeconomics, the wide range of information about the macroeconomy that is publicly available, and the future subjects you can take to learn more about macroeconomics.

Prerequisites

ECON10004 Introductory Microeconomics

and a study score of at least 25 in Mathematical Methods or Specialist Mathematics in VCE Units 3 & 4 or equivalent or successful completion of MAST10012 Introduction to Mathematics.

Familiarity with the material covered in Introductory Microeconomics will be assumed in this subject, as will some basic mathematics (and especially calculus) knowledge that you would have learnt in secondary school.

Contact Details for Subject Administrators

**Lecturer:**

Robert Dixon

Room 348  FBE Building, 111 Barry Street

Phone: 8344-5352   Email: r.dixon@unimelb.edu.au

Office hours:  To Be Advised

**Tutorial Coordinator:**

Nahid Khan

Room 336  FBE Building  111 Barry Street

Phone: 8344-3621   Email: n.khan@unimelb.edu.au

Office hours:  Wednesday 10-12

Any queries of an administrative nature related to tutorials or marks should be directed to Nahid. Queries about the topics covered and the content of lectures, tutorials or readings should be directed to your Tutor or the On-line tutor (see page 11).
Email Protocol

While academic staff endeavor to address queries received via email, it is more appropriate to resolve substantive questions face-to-face during normal consultation hours. With this in mind, all students are encouraged to familiarize themselves with the consultation hours offered by the tutors in this subject. In addition, students may use the Online Tutor to post questions regarding the subject. Details on how to access and use the Online Tutor are provided below.

Please note that staff are only able to respond to student emails coming from a University email address. Please do not use personal email addresses as emails from non-University email addresses may be filtered by the University’s spam filter. All correspondence relating to this subject will only be sent to your University email address.

Lectures

Lecture Times

Note that the same lecture is repeated each day.

- Tuesday 2:15 - 3:15 Asia Centre-B02 (Carrillo Gantner Theatre)
- Tuesday 4:15 - 5:15 Engineering - 407 (C1 Theatre)
- Wednesday 10 - 11 MSD-B117 Theatre
- Wednesday 1 - 2 Chemistry- (Cuming Theatre)

All lectures in the subject will be given by Professor Robert Dixon.

Lecture Participation Requirements

The lecture slides will be available for download from the LMS prior to each lecture. Students should print these slides out and bring them to lectures. Students should also be prepared to take notes, as some important explanations of the material are not provided on the slides. Note also that the lectures will be recorded and available to students using the University’s Lecture Capture system which will be accessible via the LMS (see details below).

Using Lecture Capture

A recording of lectures delivered in this subject will be made available to students following each lecture. Recordings of lectures allow you to revise lectures during the semester, or to review lectures in preparation for the end of semester exam. You can access recorded lectures by clicking on the “Lecture Capture” link on the LMS page for this subject. Many students who use the lecture recordings find it helpful to be looking at the slides as they listen.

Please note that the recordings are not a substitute for lecture attendance; rather they are designed for revision. On occasion a recording can fail, usually due to technical reasons. In such cases, the lecture recording will not be made available.

The topics to be covered in each lecture are on the next page. Be mindful that each topic builds on all the previous topics and so it is important that you study the relevant material every week, otherwise you will quickly fall behind. Your knowledge of the topic covered in each week’s lectures will be tested in the following weeks tutorial.
## Lecture Schedule

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<th>Topic</th>
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<td>3 March</td>
<td>Administration and Input-Output Flow tables</td>
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<td>2</td>
<td>4 March</td>
<td>National Accounts: ways of measuring GDP, ‘value added’</td>
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<td>2</td>
<td>3</td>
<td>10 March</td>
<td>National Accounts: Real GDP and its measurement</td>
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<td>4</td>
<td>11 March</td>
<td>CPI, inflation, real and nominal interest rates, inflation targeting</td>
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<td>3</td>
<td>5</td>
<td>17 March</td>
<td>Hyper-inflation, unemployment &amp; participation rates</td>
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<td>6</td>
<td>18 March</td>
<td>Minimum wages, equilibrium unemployment, Okun’s law</td>
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<td>7</td>
<td>24 March</td>
<td>Neoclassical model of labour demand by a single firm</td>
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<td>8</td>
<td>25 March</td>
<td>The labour market, Walras’ law, Globalisation and workers</td>
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<td>5</td>
<td>9</td>
<td>31 March</td>
<td>The Keynesian cross model of the level of economic activity (1)</td>
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<td>10</td>
<td>1 April</td>
<td>The Keynesian cross model of the level of economic activity (2)</td>
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**EASTER BREAK**

| 6    | 11      | 14 April | The Keynesian cross model of the level of economic activity (3)      |
|      | 12      | 15 April | Fiscal policy, public debt, flow of funds analysis                  |
| 7    | 13      | 21 April | Money and Banking (1)                                              |
|      | 14      | 22 April | Money and Banking (2)                                              |
| 8    | 15      | 28 April | Aggregate demand and supply model (1)                              |
|      | 16      | 29 April | Aggregate demand and supply model (2)                              |
| 9    | 17      | 5 May    | Production functions and growth accounting                         |
|      | 18      | 6 May    | The Solow-Swan growth model (1)                                    |
| 10   | 19      | 12 May   | The Solow-Swan growth model (2)                                    |
|      | 20      | 13 May   | International trade and comparative advantage                       |
| 11   | 21      | 19 May   | Exchange rates (1)                                                 |
|      | 22      | 20 May   | Exchange rates (2)                                                 |
| 12   | 23      | 26 May   | Exchange rates (3), Balance of Payments (1)                         |
|      | 24      | 27 May   | Balance of Payments (2), Revision                                  |

Detailed references for each topic will be given in lectures and on the Blue sheet for each tutorial. You are all expected to do the reading set for each Tutorial.


**Tutorials**

**Tutorial Schedule**

Students are all expected to attend a one hour tutorial each week. **Tutorials will commence in the second week of semester** (ie the week beginning Monday 9th March). The tutorials will give students the opportunity to practice the topics covered in lectures and in the readings set in the previous week.

You enrol in Tutorials via your Student Portal. If you have any problems regarding tutorials contact Nahid Kahn.

Be mindful that Monday 9th of March (Labour Day) IS NOT a University holiday. Tutorials will operate on that day (as will lectures and tutorials in other subjects).

Note that the Easter Non-Teaching Period is the period Friday 3 April – Sunday 12 April (inclusive). Alternative arrangements will be made for those who will not have a tutorial on Friday 3 April.

**Tutorial Participation Requirements**

All tutorials in this subject will be conducted under a **collaborative learning format**. This means that the tutor will not stand in front of the tutorial giving a mini-lecture each week. The emphasis will be on student participation through discussing macroeconomic problems and issues in small groups.

For each tutorial there will be two handouts: a pre-tutorial guide (Blue in colour) and a tutorial tasks list (Pink in colour). The pre-tutorial guide will tell you what to read learn and do, to prepare for the tutorial. It is essential that you prepare for each week's tutorial by working through the pre-tutorial guide for that tutorial. It directly reinforces what has been covered in lectures and in readings for the week before. The second handout is the list of tutorial tasks and that will be distributed to you at the beginning of the tutorial. It contains the exercises you will have to address in that tutorial. Note that you will not be told beforehand what questions you will have to answer in tutorials. It is therefore important that you prepare using the pre-tutorial guide.

The format of the tutorials will be as follows:

- each tutorial class will be split into groups of 4-5 students. The groups need not be the same every week but should not be larger than 5.
- some weeks all groups will do the same questions, while in other weeks, each group will attempt a different question.
- after the questions have been answered, there will be a short presentation time where a spokesperson for each group will report back to the tutorial class.
- students are expected to comment on other groups' presentations.

You will be assessed on the extent of your participation (remember, 10% of your final grade for this course is based on your tutorial work). You cannot participate if you do not attend and you will not be able to attend if you do not do the Blue sheet work in advance! Your tutor will subtract ONE mark for each tutorial missed during the semester without a valid reason. In cases of illness, this will require a medical certificate. Other reasons must also be documented.
The criteria that will be used by your tutor in awarding your mark are:

Evidence of preparation for the tutorial
Frequency of participation in discussion
Relevance and logic in discussion
Evidence of active listening to the contributions of others

All of this means that you are expected to work actively in tutorials. Your tutor, as always, will be more than willing to help you with individual questions, but remember the basis of tutorials will be your group-based discussions.

The marks for tutorial participation (including attendance) will only be allotted by the student’s regular (official) tutor. It is important that you:

- check with your tutor that your name is on the tutor’s official tutorial roll,
- ensure that any note issued to you for attendance at another tutorial is given to your regular tutor
- check that if you transfer from one tutorial to another during the semester that your ‘old’ tutor has made arrangements for your tutorial mark (to the time of transfer) to be transferred to your new tutor.
- go to any other tutorial during the week if you miss your regular tutorial for illness and collect an irregular attendance form from that tutor. However, you can only do this twice in the whole semester.

Brief solutions to the Blue sheet questions will be posted on the LMS in the week following each tutorial. Solutions to the Pink sheet questions will not be posted on the LMS. Students should take notes during tutorials while working through the Pink sheet questions.

Calculators

You will need a calculator and you will need to bring one to your tutorials (and to the final exam). If you are purchasing a calculator be mindful that some but not all calculators are permitted in the final exam. Calculators that are not permitted in the exam are graphical and programmable calculators, and any calculator which stores text and/or has the full alphabet on its buttons. ‘Scientific calculators’ are fine, but calculators which can store and retrieve text are not.

Assessment

The University’s Handbook gives the assessment for the subject:

A 2-hour end-of-semester examination (60%),
Two multiple choice tests, one conducted at the end of the fourth week of the semester, the other conducted in the eleventh week of the semester (10%),
Two assignments totalling not more than 2,500 words (20%), and
Tutorial attendance and participation (10%).
**Assessment Overview**

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<th>Assessment Task</th>
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<tr>
<td>Macroeconomics Feedback and Assessment Task 2. An Online test based on work (including reading) for Tutorials 3 – 9 (inclusive)).</td>
<td>May 20&lt;sup&gt;th&lt;/sup&gt;, 9.00am to May 21&lt;sup&gt;st&lt;/sup&gt;, 4.00pm</td>
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<td>Assignment 1 (1000 words)</td>
<td>April 15&lt;sup&gt;th&lt;/sup&gt; 2.00pm</td>
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<tr>
<td>Assignment 2 (1500 words)</td>
<td>May 13&lt;sup&gt;th&lt;/sup&gt; 2.00pm</td>
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<td>Participation in tutorials</td>
<td>Weekly</td>
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<tr>
<td>End-of-semester exam</td>
<td>Assessment period</td>
<td>60%</td>
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**End-of-semester exam**

The end of semester exam, worth 60 per cent of the final grade for this subject, will be based on questions which appeared on the Blue and Pink sheets for tutorials and also the questions which were on assignments throughout the semester. This exam will occur during the University's normal end of semester assessment period, with the time, date and location provided by the University's administration later in the semester. The exam will be 2 hours in duration, and will have both multiple choice and longer problems to be answered in the exam books. Students should take a calculator to the end of semester exam.

Copies of a number of end-of-semester exams from previous years will be made available to students via the LMS towards the end of semester.

The Faculty requires that students are available for the entire examination period. Supplementary exams will not be provided in cases of absence during the examination period, unless the absence is due to serious illness or other serious circumstances.

**Macroeconomics Feedback and Assessment Tasks**

There will be **two multiple choice tests** administered online through the LMS.

A practice test with feedback will be available for students prior to taking Assessment Task 1. The purpose of the practice test is so that students can familiarise themselves with the process of an online test and with the style of questions (rather than the exact content) that will be used for both on-line multiple choice tests.

To access the tests sometime during the period set for each test you need to log on to the LMS page and choose on-line test from the menu and complete the task. There is a thirty minute time period. You will be asked to complete fifteen questions for each test.
Assignments 1 and 2

These will be individual essay or short answer style tasks which may require that you use and demonstrate an understanding of economic statistics and statistical sources as well as economic analysis. More detailed criteria regarding our expectations will be released along with the assignments themselves.

The assignments will be available on the LMS (usually 14 days ahead of the due date). **Assignments not submitted by the due date and time will count as zero for assessment purposes.**

Assignments can be submitted by a group of up to a maximum of three students, **BUT all group members must be enrolled in the same tutorial.** Students will choose and form their own groups. For assignments submitted as a group, all students in the group will receive the same mark for the assignment. Students who attempt to submit an assignment with a group that is not in their own tutorial, or in a group with more than three members, will not receive any credit for that assignment. Students may choose to work and hand in their assignments on their own (but we advise against it).

Tutors cannot accept assignments that are emailed to them (nor will the Lecturer).

**Please note** that students are required to keep a copy of their assignment after it has been submitted, as in the event that the assignment is lost, students must be able to produce a copy of their assignment at the request of their tutor or lecturer at any time after the submission due date.

**Group Work**

Working in groups can sometimes be more difficult than working individually. However, team-work and organisational skills associated with group work are highly valued by employers. With careful management and ongoing communication, you can have a successful and rewarding experience working in a team.

You should exchange names, phone numbers, and email addresses with your group members straight away. If you have difficulty with a member of your group, you should contact your tutor as soon as possible. Do not leave issues unresolved until just before or after your group assignment is due.

All students within your group will be given the same mark for an assignment submitted as a group, so choose your group members wisely. Remember, all group members must be enrolled in the same tutorial.

**Using the Assignment Tool**

During the course of the semester, you’ll be asked to submit your assignments in electronic format to the Commerce Students Centre via the Assignment Submission Tool. You can access the Assignment Submission Tool by clicking on Assignment Tool in the navigation menu from the LMS page for this subject.

Please note that you will be required to submit these in electronic form via the assignment submission system by 4PM on the due date. The following details are very important:

- It is important that you keep a copy of your assignment
- Plagiarism or other forms of academic dishonesty will result in discipline proceedings being brought against you.
Plagiarism and Collusion

Presenting material from other sources without full acknowledgement (referred to as plagiarism) is heavily penalised. Penalties for plagiarism can include a mark of zero for the piece of assessment or a fail grade for the subject.

Plagiarism is the presentation by a student of an assignment identified as his or her own work or the work of their group even though it has been copied in whole or in part from another student’s work or another group’s work, or from any other source (eg. published books, web-based materials or periodicals), without due acknowledgement in the text.

Collusion is the presentation by a student of an assignment as his or her own work when it is, in fact, the result (in whole or in part) of unauthorised collaboration with another person or persons. Both the student presenting the assignment and the student(s) willingly supplying unauthorised material are considered participants in the act of academic misconduct.

See the following website for more information.


Late Assignments will NOT be accepted

Students with a genuine and acceptable reason for not completing an assignment (or other assessment task), such as illness, can apply to the tutorial coordinator to have their marks for that assignment transferred to the final exam. Suitable evidence, such as a doctor’s certificate is required. Applications made more than 3 days after the assignment (or other assessment task) is due will not be considered. Tutors do not have the authority to accept late assignments.

Special Consideration

Students who have been significantly affected by illness or other serious circumstances during the semester may be eligible to apply for Special Consideration.

The following website contains detailed information relating to who can apply for Special Consideration and the process for making an application:

http://fbe.unimelb.edu.au/csc/assistance/special_consideration

Referencing

All direct quotations used for a written piece of assessment must be referenced. This is to acknowledge that you have not put the ideas in your own words but instead are simply copying words from someone else.

You will be required to use the Harvard System of referencing. The library has prepared a booklet specifically to assist students to reference correctly. The booklet can be found here:


It is important that all material you present for assessment is referenced correctly. Material that has not been referenced correctly may be considered to be plagiarised,
and as such may be penalised. We will also look for evidence that material included in
the bibliography has been used in the assignment. *Including references that have not
been used may also result in your assignment being penalised.*

**Further Assistance**

If you need assistance during the semester, you have several options:

**Online Tutor**

The Online Tutor allows you to direct questions to a tutor via the LMS. The Online Tutor can be accessed 24 hours a day, 7 days a week. The Online Tutor will attempt to answer your question within 24 hours (weekdays only). Make sure that you ask clear and specific questions.

Your questions and the tutor’s answers can be accessed by all students in the subject, allowing everyone to benefit from the question and answer. Importantly, your identity will not be revealed to other students. Even if you don’t want to ask a question, you can still view existing questions and answers.

Note that the Online Tutor is not designed to replace attendance at tutorials, but rather to complement the tutorial process. Also, simple questions that can be answered by referring to the prescribed readings will not usually be answered. You can access the Online Tutor via the Online Tutor link, located in the navigation menu of this subject’s LMS page.

The Online Tutor will operate from the beginning of the second week of the semester; that is, from Monday March 9th.

**Your Tutor’s Consultation Time**

Once tutorials commence each tutor will have a time available each week when you can meet with them outside the tutorial. Your tutor will notify you of these times and they will also appear on the Announcements Page of the LMS.

**Welcome**

Welcome to the subject. Our aim is to teach you very practical skills which will be useful in other subjects you will study at the University of Melbourne and also (and especially) in the workplace and to do it in such a way that you have “the edge” on students from other Universities in the job market and in your career path. We think that you will find that the subject is both challenging and interesting.

Robert Dixon (on behalf of all those involved in teaching Introductory Macroeconomics)
Appendices

1. A warning on mobile phones in class

2. Some ideas on note taking during lectures

3. The Greek alphabet

4. Reading on the History of Economic Thought

5. Some Key Writers in the field of Macroeconomics

A warning on mobile phones in class.

Lectures are a mobile phone free zone. Please ensure they are turned off or silent. If a mobile phone rings in class, then I will stop the class and ask the person to leave. The class will resume when the person has left. Trust me – you can live without it for 50 minutes.
Some Ideas on Note Taking in Lectures

Note taking during lectures or tutorials is a key factor contributing to your learning. Your lecture notes will provide you with an outline of the most important ideas and concepts in the subject and will guide your wider reading and revision. Each lecturer has a different style, speed and method of teaching and you will need to adjust to these different approaches. However, there are several strategies that will assist you in developing a useful set of lecture notes.

What to do before the lecture. In preparation for the lecture, you should aim to read the assigned material (at a minimum read the slides for each lecture in advance of the lecture). Familiarity with the reading materials prior to the lecture will help you to identify the most relevant information and that which extends or clarifies the set reading. As you read make notes of new terms, concepts, measures, models, graphs, and theories. Formulate questions about the material and think about these as you listen to the lecture. If (occasionally) you don't have time to read it all thoroughly, spend 5-10 minutes skimming the material before the lecture.

Physical factors. Try to sit near the front or centre of the lecture theatre as here vision and hearing are better and distractions are less. Have two pens and use a large note book of wide lined paper. Use only one side of the paper. (you then can lay your notes out to see the direction of a lecture.) Leave a wide margin so that you can write in questions later.

What to do while in the lecture.

- Date your lecture notes and number all pages.
- Tune in - the best way to take good notes is to view the time spent in lectures as a period of active listening and thinking. As the lecturer is talking try to concentrate on the main ideas which are being developed. This will help you to distinguish between the key points that are being raised and those that are used to illustrate or extend the argument. (Clearly, chatting during a lecture will not help in this process and your time would be more productively spent elsewhere).
- Watch for cues from the lecturer as to which information is most relevant. Note for example where there is repetition; use of cue words such as ‘remember’, ‘note well’; references to the reading material; an illustration/example which emphasis an idea. Similarly, pay attention to qualifying words such as ‘sometimes’, ‘usually’, ‘rarely’ and words which indicate a change of direction such as ‘however’ or ‘on the other hand’
- It is very important that you notice how the lecturer has organised the material. Organisation aids memory. If the organisation is not logical to you, try to organise the material under your own headings.
- Be selective in note taking: don't write down every word the lecturer says, although you should write down any information which the lecturer writes on the board or displays on overheads or projection screens.
- Where there are gaps in your notes, trade notes with classmates, or fill them in right after the class while your memory is fresh.
- Develop a consistent set of abbreviations for use in note taking. Make your notes brief: Never use a sentence when you can use a phrase, or a phrase when you can use a word.
• Leave lots of space between the main ideas in your notes. This will allow you to continue to add notes in your own words later on. In this way you can integrate what you already know with the lecture material and allow you to learn at a deeper level.

What to do after the lecture

• Review your notes within 24 hours. Studies have found that we forget 50% of what we hear immediately and two months later a further 25% is lost. A regular review of your notes slows down this memory loss and allows you to develop an understanding of the subject as a whole.

• Memory is also enhanced by making associations between your notes, and organising and summarising your notes into essential ideas, perhaps in the form of a diagram or a concept map. Merely recopying notes without thinking about or revising them does not necessarily aid retention. A more helpful practice is to manipulate the material by reorganising it and putting it in your own words. For a well-organised lecture, an outline can suffice, but in the case of material where important ideas and relationships are scattered throughout, use the concept mapping technique. This can be very useful in restructuring and putting together the relevant points. The use of this technique forces you to critically evaluate material in terms of main ideas, secondary points, and details, and to structure this content in an organised and coherent fashion. Relationships must be observed and established, irrelevant material may be excluded. This can be one of the most efficient means of immediate review for optimal retention.

• Write a brief summary of the lecture in ‘point form’ as you review your notes

• Write down questions that remain after you have reviewed your notes and the set reading materials. Ask other students in the subject if they can help you with those aspects that you do not understand. If they are also unclear ask your tutor to explain and then report back to your peers.

Students who approach a subject with the intention of understanding the material rather than memorising it, learn more effectively and they are able apply their knowledge to a range of problems.

Robert Dixon
The Greek Alphabet

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Reading on the History of Economic Thought

Gentle introductions

Heilbroner, Robert. The worldly philosophers
Buchholz, Todd G. and Feldstein, Martin. New ideas from dead economists
Strathern, Paul. Dr Strangelove's game: A brief history of economic genius
Breit, William and Ransom, Roger L. The academic scribblers
Fusfeld, Daniel. The age of the economist

More advanced

Foley, Duncan K. Adam's fallacy: a guide to economic theology
Coyle, Diane. The soulful science: what economists really do and why it matters
Backhouse, Roger. The ordinary business of life: a history of economics from the ancient world to the twenty-first century
Hunt, E K. History of economic thought: a critical perspective
Rima, Ingrid. Development of economic analysis
Roncaglia, Alessandro. The wealth of ideas: a history of economic thought

Some key writers in Macroeconomics

Francois Quesnay 1694 – 1774

Quesnay was a medical practitioner and the leading figure of the French school of economists known as ‘The Physiocrats’, generally considered to be the first school of economic thinking. The name “Physiocrat” derives from the Greek words phýsis, meaning “nature,” and krátos, meaning “power.” The Physiocrats believed that an economy’s power derived from its agricultural sector. They wanted the government of Louis XV, who ruled France from 1715 to 1774, to deregulate and reduce taxes on French agriculture so that France could emulate wealthier Britain, which had a relatively laissez-faire policy. Indeed, it was Quesnay who coined the term “laissez-faire, laissez-passer” (ie ‘allow to act and let pass’ or ‘leave alone’). In 1749, on the strength of a strong recommendation, Quesnay became the personal physician of the King Louis XV’s mistress, the Madame de Pompadour. Quesnay settled in Versailles, finally entering the highest circle of power. Quesnay’s interest in economics arose when, hoping to draw on his country background, he was asked to contribute several articles on farming to the Encyclopédie of Diderot and d'Alembert. In 1758, Quesnay wrote his Tableau Économique -- renowned for its famous depiction of income flows between economic sectors-- to explain his doctrine. It became the founding document of the Physiocratic sect and the ancestor of the multisectoral input-output systems of Marx and Leontief and of modern general equilibrium theory. He and his colleagues influenced Smith greatly. Indeed there is much in Smith that can be seen as a borrowing from - and/or as a reaction to - the ideas of the Physiocrats.
Adam Smith 1723 – 1790

Even after more than two centuries, Adam Smith remains a towering figure in the history of economic thought. Known primarily for a single work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). Despite its renown as the first great work in political economy, *The Wealth of Nations* is in fact a continuation of the philosophical theme begun in *The Theory of Moral Sentiments* (1759). Smith is more properly regarded as a social philosopher whose economic writings constitute only the capstone to an overarching view of political and social evolution. He wrote in his *Theory of Moral Sentiments* the famous observation that he was to repeat later in *The Wealth of Nations*: that even though people pursue their own self-interest they are often “led by an invisible hand . . . without knowing it, without intending it, [to] advance the interest of the society.”

Smith argued that it is in the unintended outcome of this competitive struggle for self-betterment that the invisible hand regulating the economy shows itself, as competition forces the prices of commodities down to their “natural” levels which correspond to their costs of production. Moreover, by inducing labour and capital to move from less to more profitable occupations or areas, the competitive mechanism constantly restores prices to these “natural” levels despite short-run aberrations. Smith's analysis of the market as a self-correcting mechanism was impressive. But his purpose was more ambitious than to demonstrate the self-adjusting properties of the system. It was also to show that, under the impetus of the acquisitive drive, the annual flow of national wealth would be seen to grow.

Thomas Robert Malthus 1766 – 1834

English economist and demographer, best known for his theory that population growth will always tend to outrun the food supply and that betterment of the lot of mankind is impossible without stern limits on reproduction. This was set out in *An Essay on the Principle of Population as it affects the Future Improvement of Society, with Remarks on the Speculations of Mr. Godwin, M. Condorcet, and other Writers* (1798). He also wrote about economics more narrowly conceived (some argue that he invented the idea of ‘diminishing returns’) and appears to have influenced Keynes.

David Ricardo 1772 – 1823

English economist who gave systematised and classical form to the rising science of economics in the early 19th century. Ricardo defined the scope of economics more narrowly than had Adam Smith and included little explicit social philosophy. Although many of his ideas have long since been superseded or modified by other work and by new theoretical approaches, Ricardo retains his eminence as the thinker who first systematised economics, as the first builder of ‘economic models’. He wrote a good deal on policy issues, his most important book is his *On the Principles of Political Economy and Taxation* (1817). His ideas on international trade (specifically the idea of ‘comparative advantage’) are still taught today.

Karl Marx 1808 – 1883

Born in Germany but lived most of his life in London. Heavily influenced by Ricardo whose ideas he developed into a very sophisticated system. A prolific author, the key work and his main work on ‘Economics’ is *Capital - Volume One: The Process of Production of Capital* (1867).
Leon Walras 1834 – 1910

The French economist Léon Walras is regarded by many economic theorists as the greatest of all economists mainly because of one very difficult and very mathematical book, *Elements of Pure Economics* (1874) in which he invented and explored in great detail the branch of economics known as ‘general equilibrium theory’.

Alfred Marshall 1842 – 1924

Best known for his text, *Principles of Economics* (1890) in which he set out the formal analysis of supply and demand and of cost curves pretty much the same as they are presented in microeconomics lectures today. He felt that his predecessors had erred in emphasising either supply or demand, whereas he felt that “both blades of the scissors” mattered.¹ He formalised many ideas and provided a foundation for much of the work undertaken in microeconomics until the game theory (or ‘strategic behaviour’) revolution in the late 20th century.

Joseph Schumpeter 1883 – 1950

Best known for his famous theory of entrepreneurship. He argued that entrepreneurs created technical and financial innovations in the face of competition and falling profits - and that it was these spurts of activity which generated (irregular) economic growth. His best known book is his popular *Capitalism, Socialism and Democracy* (1942).

(John) Maynard Keynes 1883 – 1946

Probably the best known economist amongst the general public. He wrote two important works in Economics *A Treatise on Money*, (1930) and *The General Theory of Employment, Interest and Money* (1936). His own views on capitalism and individual freedom are complex and now-a-days difficult to separate out from the views of those who claim to be his followers – the “Keynesians” of one type or another but whose theories are often very different to those of Keynes himself.

Milton Friedman 1912 – 2006

An ardent opponent of Keynesian economics, Friedman led the “Monetarist” attack on Keynesian orthodoxy in the 1960s and early 1970s. A prominent member of the ‘Chicago school’, he was an extremely wide-ranging and innovative theorist who also wrote much on various aspects of economic policy including several popular volumes – and in particular *Capitalism and Freedom* (1962) – advocating laissez-faire policies more generally. Friedman won the Nobel Prize in 1976. His ideas influenced many politicians and especially Margaret Thatcher and Ronald Reagan.

¹ “We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value [price] is governed by utility [demand] or cost of production [supply]. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is not strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens.” (Principles, 8th edition, p 290)
Trevor Swan 1918 – 1989

He obtained a first class honours degree from the University of Sydney in 1939 where he had been a part-time student. From then until 1950 he worked as an economist in various government departments culminating in the position of Chief Economist in the Prime Minister's Department under Robert Menzies. Between 1943 and 1945, while working at the Department of War Organisation of Industry, he built a 10 equation empirical model of the Australian economy, one of the first such models ever constructed. In 1950 he was appointed the foundation Professor of Economics at the Australian National University. In 1956 he published a paper in the Economic Record in which he presented a neoclassical model of economic growth which he had developed independently of Robert Solow - the model is usually referred to as the ‘Solow-Swan model’ (and will appear in every macroeconomics subject you take!). He retired from the ANU in 1983. An obituary article in the Economic Record in December 1989 described him as “the most distinguished of all Australian economists”.

Robert Solow 1924 –

In 1987 he was awarded the Nobel Prize for Economics “for his contributions to the theory of economic growth”. Almost all of his working life was spent at MIT (Massachusetts Institute of Technology) in Boston. He has written extensively across all areas of macroeconomics but is best known for (a) his work on economic growth and technical change and (b) his devastating wit in which his criticisms of others were clothed – mostly directed at members of the Chicago School.
A postscript:

**Vale Bernard Maris** (born 23 September 1946, died 7 January 2015)

Bernard Maris was a Professor of Economics at the Institute of European studies of the University of Paris-VIII. He published a great deal on inequality in France and on European economic policy. He was also a columnist for the French satirical magazine Charlie Hebdo. Bernard was murdered along with eleven others on 7 January 2015 when armed gunmen stormed the Charlie Hebdo offices in Paris. Witnesses reported that the gunmen sought out people by name before shooting them execution-style.