

## **Course Outline**

**McMaster University**  
**Economics 2D03 Winter Term, 2011**  
**Economic Issues**

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**Office Hours:** Wednesday 2:30-3:30 PM or by appointment  
**Office:** KTH 420  
**Classroom:** TBA  
**Lectures:** **Mon Wed Thursday** 4:30 PM – 5:20 PM

**OBJECTIVE:**

We start with a brief review of globalization, global imbalances and recent economic issues. We tend to focus on these issues in non-conventional ways, where the primary goal is the maximization of economic well-being. We critically evaluate conventional GDP accounting methods to see if these are reasonable proxies of well-being in a given economy. In this regard, we discuss the role of social capital and its relationship to well-being.

We discuss issues concerning the environment, sustainability and environmental policies, because it impacts our economic well-being in a long term manner. This leads us to the quest for sustainable growth to fight global poverty. Before we analyze global poverty and income inequality, we look at the topic of the evolution of high income in Canada and North America.

Poverty is an important theme in the current course. The link between economic growth, employment and poverty reduction is explored in detail.

We discuss the economic issues concerning population, growth and the competitiveness of the Canadian economy. We assess Porter's analysis of the Canadian economy. After discussing long-term growth policies, we evaluate our macroeconomic stabilization policies with regard to short-term economic fluctuations.

When we critically assess policy-issues, we discuss how economists (philosophers) shaped our thinking regarding economic issues and policy formulations. We analyze the role of monetary policy and fiscal policy and growth policy to achieve economic stability and growth. We highlight the debates concerning interventions vs. market solutions.

We conclude this course with discussions on economic and social policy reforms and fiscal equalization in Canada.

**REQUIRED TEXT:**

Materials for this course are compiled in the **Custom Courseware** prepared by the Instructor  
Published by the McMaster University Bookstore

## **MARKING SCHEME:**

|  |     |
|--|-----|
| Two-in-class Tests   | 40% |
| <i>Test #1 Thursday February 3, 2011</i>   |     |
| <i>Test #2 Thursday March 17, 2011</i>   |     |
| Best 2 out of 3 Pop Quizzes  | 10% |
| Questions-Based Essay on Poverty-Related Issues<br>(Due on or before March 31, 2011) | 10% |
| Final Exam (3 Hours)   | 40% |

All tests and exams are based on multiple choice questions and written answers.

### **Bonus Assignments for Bonus Marks:    [*Read the following carefully*]**

12 Bonus marks (to be added to the total test marks) based on in-class submission of one-pager or two-pagers **Hand-Written** note on each of the following topics [see the due dates in the bracket]. Accept best 6 out of 8 assignments.

Assignment #1    January 20, 2011

- (a) What is social capital? Is the value of social capital a part of GDP? Why or why not?
- (b) Why GDP is not a good index of economic progress?

Assignment #2    January 27, 2011

Outline the important MDGs and assess their success rates.

Assignment #3    February 10, 2011

Summarize the main findings of the article by Saez and Mike Veall. Why and what should be the direction of future research?

Assignment #4    February 24, 2011

What is pro-poor growth? In this context, summarize the views held by Ravallion, Kakwani and others.

Assignment #5    March 3, 2011

Summarize the main findings of the article by Denton and Spencer. Why and what should be the direction of future research?

Assignment #6    March 10, 2011

Explain the reasons for Canada-USA labour-productivity gap.

Assignment # 7    March 17, 2010

- (a) Describe Porter's Diamond.
- (b) What are the reasons for poor competition and poor productivity in Canada, according to Michael Porter?

Assignment #8    March 24, 2011

- (a) What are the causes of recession?
- (b) What is fiscal policy multiplier? What factors can reduce multipliers?

## **QUESTIONS-BASED ESSAY ON POVERTY-RELATED ISSUES:**

**ESSAY DUE DATE: on or before March 31, 2011**

**You must submit a hard copy on or before March 31, 2011.**

**You must submit your essay to turnitin.com on or before 11:59 PM on March 31, 2011.**

*Note that turnitin.com will not accept any submission after the deadline.*

*Late submission of hard copies will be penalized by 10% per day.*

The purpose of this question-based essay is to see how your inquiring mind works.

The topics of your essay must be based on any of the following:

- *Poverty in Canada*
- *Rural Poverty and Micro credit in third world economies*
- *Sustainability and Environmental wellbeing*
- *Financial Crisis and Economic Crisis*
- *Multiplier and recession-fighting fiscal and monetary policies*

The objective of the questions-based essay is to ensure that you have a good grasp on the issue on which you are writing. *20% of the mark will be based on the originality of your questions.*

You must explicitly state the question or questions at the start. On the first page, you should write "Question". Below the word "Question", you should set formal question or questions so that it is clear to the reader what you will be arguing in your essay. The length of your questions should be a few sentences. The questions and answers **must** be related to the topics cited above. Make sure that the set of questions are unambiguously connected with each other and that your answers are consistent with your questions.

Following these questions, you should begin with the introduction following proper essay format.

Additionally, you should explain your question(s)'s relevance/importance in developing your analysis. You may also want to highlight other new findings, alternative theories or policies that could have impacted your answers.

If applicable, explain why the answers can or cannot be given for the set of questions you have asked. You can provide research-findings from academic sources to support your arguments (proper citation required) and provide lessons or answers that can be learned from this research. You may also want to highlight other policies or shocks that could have impacted the answers.

### **ESSAY MARKING GUIDELINES:**

- ✓ Clearly stated questions and answers
- ✓ Academic sources should be used.
  - *Wikipedia is not acceptable as an academic source.*
- ✓ **5-7 pages, double spaced, Times New Roman, 12 pt font, 1 inch margins**
- ✓ Clear introduction, body and conclusion
  - Sub-headings may be used to aid in the organization of your paper
- ✓ **Include citations and bibliography in APA or MLA format (failure to do so will result in a mark of 0)**
- ✓ For some advice on writing <http://socserv.socsci.mcmaster.ca/ec3f3/writing1.htm>

University policies on academic ethics and dishonesty are available on the web: "Statement on Academic Ethics" (<http://www.mcmaster.ca/academic/acadeth.htm>) and "Resolutions on Academic Dishonesty" (<http://www.mcmatser.ca/senate/academic/academic.htm>).

| <b>ESSAY MARKING RUBRIC</b>  |          |
|--|----------|
| Set of questions; quality of questions asked   | 10%-15%  |
| Contents of answers; sources and previous research to support your answers; presentation of your arguments and main findings and conclusions | 65% -70% |
| What can be done in future/future research ideas   | 5%       |
| Organization/Style/Spelling/etc.   | 10%      |
| Citation   | 5%       |
| Total  | 100%     |

### **ADDITIONAL DETAILS:**

The instructor and the University reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

### **ACADEMIC DISHONESTY:**

Academic dishonesty consists of misrepresentation by deception or by other fraudulent means and can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various kinds of academic dishonesty please refer to the Academic Integrity Policy, specifically Appendix 3, located at

[http://www.mcmaster.ca/senate/academic/ac\\_integrity.htm](http://www.mcmaster.ca/senate/academic/ac_integrity.htm)

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations.

In this course we will be using a web-based service (Turnitin.com) to reveal plagiarism. Students will be expected to submit their work electronically to Turnitin.com and in hard copy so that it can be checked for academic dishonesty. Students who do not wish to submit their work to Turnitin.com must still submit an electronic copy and hard copy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com. All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g. on-line search, oral questioning of student regarding content, etc.) To see the Turnitin.com Policy, please go to [www.mcmaster.ca/academicintegrity](http://www.mcmaster.ca/academicintegrity) .

## **COURSE SCHEDULE:**

1. Introduction: The Global Challenge  
Political Changes; Developments in Science and Technology  
Changes in the Global Economy; Changes in the Global Environment  
Globalization  
Social Capital
2. GDP calculations and Measures of Economic Well-Being  
Extended Accounts for GNP  
Canadian Economic Wellbeing
3. The Environmental Challenge and the Economics of the Environment  
The Environmental Challenge and Sustainable Development  
The Use of Market Incentives in Pollution Control  
Marginal damage costs and marginal abatement costs  
Coase Theorem  
Benefit-Cost Analysis  
Canadian Environment and Pollution  
Air and Water Pollution; Waste Disposal; Global Warming
4. Income Distribution and Poverty in Canada and Poverty in USA  
Evolution of high income  
Poverty: Definition, Measurement and Incidence  
Poverty and Failure of basic capabilities  
A.K.Sen's contribution in the literature on Poverty and Famine  
Articles by R. Islam and S. Osmani  
See various one pagers on Poverty  
Summary of One Pagers published by International Poverty Centre
5. Oil Crisis, Food crisis and impending recession  
The Policy Environment: A Recapitulation  
Determinants of growth  
Solow growth model  
See the article by Denton and Spencer  
Differential Unemployment Rates between Canada and USA  
Porter's Diamond Analysis  
Porter on Canadian productivity and Canadian competitiveness
6. Monetary, Fiscal and Various Other Policies  
Monetary and Fiscal Policy debates: Rules vs. Discretion  
Unemployment  
Frictional, structural and cyclical unemployment  
Okun's Law  
Phillips curve and Sacrifice ratio  
Canadian Monetary and Fiscal Policies  
Debts and Deficits, Lessons from the Depression of 1930's  
Inflation Targets: Zero Inflation Target?  
Growth Policy, Investment Policy  
Do we need Inter-Provincial Fiscal Equalization Policy?  
Distributive Justice

## **WEB SITES FOR RESEARCH:**

The web site of the Institute on Public Policy: [www.irpp.org](http://www.irpp.org)

The web site of the Fraser Institute: [www.fraserinstitute.ca](http://www.fraserinstitute.ca)

The web site of C.D. Howe Institute: [www.cdhowe.org](http://www.cdhowe.org)

The web site for alternative Policy issues: [www.policyalternatives.ca](http://www.policyalternatives.ca)

The web site to see further research on standard of living: [www.csls.ca](http://www.csls.ca)

The web sites regarding poverty and income-inequality: [www.caledoninst.org](http://www.caledoninst.org)  
[www.ncwcnbes.net](http://www.ncwcnbes.net)

The web site for OECD studies: [www.oecd.org](http://www.oecd.org)

The web site of the Canadian Foundation for economic education: [www.cfee.org](http://www.cfee.org)

The web site for environment Canada: [www.ec.gc.ca](http://www.ec.gc.ca)

The web site on Investment Records and Free Trade: [www.strategis.ic.gc.ca](http://www.strategis.ic.gc.ca)

Efficiency of Policies and reports on government finance: [www.oag-bvg.gc.ca](http://www.oag-bvg.gc.ca)

Financial Aspects and Monetary Policy: [www.bank-banque-canada.ca](http://www.bank-banque-canada.ca)

IMF and related issues: [www.imf.org](http://www.imf.org) [www.imfsite.org](http://www.imfsite.org)

The web site of the Federal Government: <http://canada.gc.ca>

The web site for Ministry of Finance for topics on Taxes and Debts: [www.fin.gc.ca](http://www.fin.gc.ca)

The web site on Statistics Canada: [www.statcan.ca](http://www.statcan.ca)

Search for CANSIM database

The web sites concerning economic issues and financial-banking issues: [www.cabe.ca](http://www.cabe.ca)

European Bank for Reconstruction and Development: [www.ebrd.com](http://www.ebrd.com)

To get annual data on national income, population, living standards, etc for over 150 countries:

[www.datacentre2.chass.utoronto.ca](http://www.datacentre2.chass.utoronto.ca)

[www.EconomicDynamics.org](http://www.EconomicDynamics.org)

[www.globalpolicy.org](http://www.globalpolicy.org)

[www.nuclearfusion.com](http://www.nuclearfusion.com)

[www.earth-policy.org](http://www.earth-policy.org)

[www.globalpolicy.org](http://www.globalpolicy.org)

[www.forestinformation.com](http://www.forestinformation.com)

[www.pollution.org](http://www.pollution.org)

[www.cpa.org](http://www.cpa.org)

[www.desjardins.com/economics](http://www.desjardins.com/economics)

[www.undp-povertycentre.org](http://www.undp-povertycentre.org)