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| MACROECONOMICS 1 ICEF_Logo2012 | EC1002 INTRODUCTION TO ECONOMICS |  |

Syllabus[[1]](#footnote-1)\*

Lecturer: Andrei V. Dementiev

Class teachers: Andrei V. Dementiev, Armine V. Vekilyan, Inna A. Zaitseva

## Course description

Macroeconomics-1 is a one-semester course delivered in English for the second-year students at ICEF. The course examines the main principles of national income determination, the basic concepts of general equilibrium in the economy with goods and financial assets markets, as well as means and ends of monetary, fiscal and redistribution policies. It deals with the stabilisation policy problems in a standard IS-LM-AS framework leaving microeconomic foundations of consumption, investment, money demand etc. functions as well as long-run issues for the third-year course. It also assesses the effectiveness of stabilization and redistribution policies in the open economy setup by utilising the IS-LM-BP model with full and no capital mobility and different exchange rate regimes.

## Prerequisites

All students seeking to enrol in the course must have basic knowledge of Economics and Mathematics. Students that successfully passed Introduction to Macroeconomics at ICEF would seamlessly switch to more analytical approach to macroeconomics at intermediate level. In turn, Macroeconomics-1 is a pre-requisite for the third-year course on Macroeconomics-2 as well as Monetary Economics, International Economics, Economics of Transition.

## Course objectives

The purpose of the course is to develop the economic way of ‘aggregate thinking’ and make students ready to use logic and methods of macroeconomic analysis in their further studies.

Specifically the course aims at:

* + introducing students to an understanding of the domain of macroeconomics as a social theory;
  + introducing students to the basic analytical tools which are used in macroeconomic analysis;
  + introducing students to the main conclusions derived from macroeconomic analysis and to develop students’ understanding of their policy implications;
  + enabling students to participate in debates on macroeconomic and political matters.

## Intended Learning Outcomes

Having completed the essential reading and learning activities, successful students are expected to be able to:

* 1. define the main macroeconomic concepts like GDP, inflation, unemployment, balance of payments, monetary, fiscal, redistribution and exchange rate policy;
  2. identify the models and methods used in macroeconomic analysis of the short-run fluctuation and formulate the problems described in everyday language using analytical tools of economic modelling;
  3. apply and use the IS-LM-AS and IS-LM-BP models to solve these problems and assess the potential and limitations of these models and other methods used in macroeconomic analysis;
  4. explain and justify positive macroeconomic policy propositions both in written and oral communications and illustrate the relevance of the macroeconomic models through applying good group working practices.

## Teaching Methods

The following methods and forms of study and control are used in the course:

* **Lectures (2 hours a week).** Attendance at lectures is strongly recommended since it serves as an important formative assessment tool. Lectures offer a verbal presentation of the material to be mastered. More importantly, they indicate the relative significance of sub-topics and offer approaches to understanding the material that reading of the notes or textbook sometimes leaves obscure. Those who cannot attend a lecture should endeavour to discuss its content with fellow students who did attend and to borrow and copy notes. Questions and discussion are not encouraged during lectures. If lecture material is unclear, it is best to consult the tutor, preferably during tutorials or the tutor’s office hours.
* **Classes (2 hours a week).** Classes commence in the second week of the semester. Tutors provide an opportunity to discuss lecture material at the beginning or end of their tutorials. The course emphasis is on conducting economic analysis rather than simply establishing a set of facts to be memorised. With this aim, a set of exercises (problem sets) is distributed each week and discussed in tutorials. Students are strongly encouraged to carefully prepare written answers to home assignments in advance of attending tutorials.
* **Teachers’ consultations.** Unresolved questions on the lecture material can be addressed with tutors on appointment during their consultation times (office hours).
* **Self-study.** Before consulting a tutor, however, students are expected to make a serious attempt to solve the problem. Since learning for understanding can only be done by the student lecturers and tutors can do no more than offer advice as to how to go about it. Without prior effort to master a topic on the part of the student, consultation is a wasteful repeat of the lecture experience.
* **Written home assignments (problem sets).** A set of home assignments (problem sets) is distributed each week (about 20 in total). Students are strongly encouraged to have completed problem sets. Writing answers to questions before they are discussed in class is the best way to master the course material.
* **Use of Internet resources.** One can easily find plenty of useful materials in the Internet by simply typing “interactive macroeconomics” in the search browser. To avoid a waist of time students are recommended to begin with the most suitable links listed in the Learning aids section below.

## Assessment

Students’ ILOs are assessed at two broad levels:

* Information-based knowledge (implying recognition of the correct answer among seemingly related multiple choice options),
* Skill-based knowledge (reflecting the ability to adequately use the recognised models when answering long questions).

Problem sets, mid-term test and mock exam will have similar structure as the University of London (UoL) final exam (15 multiple choice questions and 1 long question) and are assessed using the standard approach to grading:

* Regarding multiple choice questions there will be no penalty for wrong answer though guessing is strongly discouraged;
* Regarding long questions verbal explanation is essential (may contribute up to 50% of the mark); algebra and graphs have to be used to support your intuition and must go with clear interpretation.

**Formative assessments**

* Home Assignments
* Q&A - Questions and Answers
* Class participation

**Summative assessments**

* Home Assignments (weekly) [10%]
* Mid-term test (end of December ) [10%]
* Group presentation (April) [15%]
* Mock exam (end of March) [25%]
* UoL exam (early May) [40%]

**Intermediate control.** Students are expected to have a mid-term test in the middle of semester and Mock exam in the UoL examination format. The Mock exam is set in late March by local teachers, and is graded in accordance with UoL examination rules.

**Final control.** Students have joint closed book examination paper in micro- and macroeconomics in the **UoL examination format** following the semester.

The exam has two major parts. Part I consists of 30 multiple choice questions covering the entire syllabus in micro- and macroeconomics. Students have an hour and a half to answer these questions averaging at about 3 minutes to be spent on each question. In Part I ALL the questions have to be answered for which the maximum mark is 50.

Part II, for which students also have an hour and a half to write their answers, is subdivided into two sections in microeconomics and macroeconomics correspondingly. Students are asked to answer ONE question from each section and are expected to spend 45 minutes per question. Each question is marked out of 25.

**Group Presentation**

Each student is expected to participate in the joint group work on a specific practically relevant topic. The basic idea of this type of learning activity is to build a bridge between the theory and real-life issues and demonstrate the relevance and applicability of an analytical approach studied in the course.

The groups are assigned and moderated by the lecturer on the basis of *stratified randomization* principle to level the playing field. Specifically, students with relatively good, moderate and bad Mock exam results are mixed in the sub-groups with students having comparable average grades. Each sub-group has a two-digit number where first digit indicates the number of ICEF academic group and the second digit means the order of presentation in class.

The topic for presentation has to tackle an interesting and up to date macroeconomic issue discussed in respected general interest newspapers and magazines, such as The Economist, Wall Street Journal, Financial Times, Moscow Times, Ведомости, КоммерсантЪ, etc. (see Appendix as an example).

Assessment criteria

Presentation skills (30%)

1. Attract peers’ attention to the described macroeconomics case;
2. Structure the presentation and frame it according to the GEM approach:
   * G-general language (use by ordinary people in everyday conversations),
   * E-economics (definitions, concepts, laws and regularities,
   * M-mathematics (graphs, algebra, econometric regressions)
3. Suggestively communicate the group work results to the peers.

Analytical skills (70%)

1. Briefly summarize the basic facts and conceptualize the main point/idea/argument/problem/issue illustrated by the case;
2. Select the appropriate theoretical model;
3. Identify crucial assumptions that make this theory applicable for the case analysis;
4. Evaluate the trade-off between unnecessary complication and oversimplification of the story;
5. Apply graphical and/or algebraic analysis where appropriate;
6. Formulate the author’s propositions and/or conclusions in the language of macroeconomic theory.
7. Confront the author’s statements with the theoretical predictions.

The time limit for in class presentation is 10 min. There will be a single Presenter that can be assigned by the instructor at his/her discretion so each sub-group member should be ready to take charge. The presenter is assessed individually by the class teacher using the above mentioned complex criteria. Other group members are primarily assessed on the basis of analytical part of the group work (i.e. slides). Also each group member has an opportunity to take part in Q&A session during 5 min after presentation.

Grade determination. Non-presenters get their grades according to the following rule:

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Where = group grade for analytical skills (criteria 4 to 10)

= Number of sub-group members present in the class

Each student will be graded separately depending on his/her involvement in the group work. The individual grade is decided by the sub-group members taking into account relative contribution of each participant. By default or in the absence of consensus among the sub-group members instructor will award each student in the sub-group list (even if he or she is absent in the day of presentation) with the average grade.

## Grade determination

The UL exam gives 40% of ICEF grade and other 60% is provided by home assignments (10%), mid-term test (10%), group presentation (15%) and mock exam (25%).

## Learning Aids

The following resources are available for students to support their learning:

* Lectures slides,
* Selected lecture notes,
* Essential reading,
* Marking schemes to previous mock exams,
* Solution manual,
* Examiners reports on past exam papers,
* Further reading,
* VLE environment resources.

Lecture slides, lecture notes, marking schemes to previous mock exams as well as home assignments and class plans are regularly uploaded to the course page in the ICEF Information System <http://icef-info.hse.ru/>.

**Essential Reading**

1. Witztum A. (2011) *Introduction to Economics*. EC1002, 2790002. University of London (**SG**)

The subject guide (SG) is the best guide to the expected standards for the course. The books below, which are referred to throughout the subject guide, supplement the subject guide.

1. Witztum A. (2005) *Economics - An Analytical Introduction*. Oxford University Press (**W**)
2. Begg, D., G.Vernasca, S. Fischer and Dornbusch R. (2011) *Economics*. 11th Revised edition: McGraw-Hill Education - Europe. (**Begg**).

**Additional Texts**

1. Lipsey, R.G., Chrystal K.A. (2011) *Economics*. 12th edition. Oxford University Press. (**LC**)
2. Blanchard, O., Johnson D.R. (2012) *Macroeconomics*. 6th edition, NJ: Prentice Hall. (**B**)
3. Blanchard O., Giavazzi F., Amighini A. (2013) *Macroeconomics: a European Perspective*; 2nd editionPearson.

It is advised to use either LC **or** Begg textbooks as essential reading as well as Witztum’s textbook containing self-assessment exercises with solutions. Admitting the importance of studying macroeconomics from different perspectives provided by a number of various intermediate-level textbooks, we recommend to shape your understanding of the subject, at first, on the basis of lecture notes which support Subject Guide*.*You may benefit from the usage of lecture notes (slides) when studying specific topics[[2]](#footnote-2) which are unique to this course (comparing to standard *Intermediate Macroeconomics* courses taught outside ICEF and UoL External Programme). Begg’s book (particularly chapters 20-29, 32, 34) is really essential because it covers almost all the material studied in the course. Nevertheless it does not provide students with necessary analytical tools.

Students may also wish to extend their knowledge by studying Blanchard-Johnson’s *Macroeconomics* (B) of the sfind helpful the similarity of notations and exchange rate definition used in this book and employed in the ICEF course. Moreover, this textbook provides a good example of internationally recognised standard one-year *Intermediate Macroeconomics* course (for instance, this book has been serving as the main text for the HSE students at the Faculty of Economics).

**Further Readings (Articles)**

1. Blanchard O. J. (2000) “What Do We Know About Macroeconomics That Fisher and Wicksell Did Not?” *NBER Working Paper* No. 7550.
2. Gordon R. J. (1990) “What is New-Keynesian Economics?”. *Journal of Economic Literature*, 28(3), pp. 1115-71.
3. Greenwald B., Stiglitz J. E. (1987) “Keynesian, New Keynesian, and New Classical Economics”. *Oxford Economic Papers*, 39, pp. 119-32.
4. Greenwald B., Stiglitz J. E. (1993) “New and old Keynesians”. *Journal of Economic Perspectives*, 7(1), pp. 23-44. (Also *NBER Working Paper* No. R1810.)
5. Phillips A. W. (1958) “The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1862-1957 ”. *Economica*, 25, pp. 283-99.
6. Romer D. (2000) “Keynesian Economics without the LM curve” *Journal of Economic Perspectives* 14 (Spring), pp.149-169.
7. Snower, D.J. and G. de la Dehesa (eds) Unemployment Policy: Government options for the labour market. (Cambridge: Cambridge University Press, 1997).
8. Cross, R (ed.) The Natural Rate of Unemployment: Reflection on 25 years of the Hypothesis. (Cambridge: Cambridge University Press, 1995).

**Internet Resources**

In addition to the subject guide and the Essential reading, it is crucial that you take advantage of the study internet resources that are available online for this course, including but not limited to:

* **VLE and the Online Library** accessible via <http://my.londoninternational.ac.uk>. It holds a vast amount of useful resources to help students read extensively.
* Essential reading journal articles listed above are available to download from the Online library
* Videos: There are recorded academic introductions to the subject, interviews and debates and, for some courses, audio-visual tutorials and conclusions.
* Recorded lectures: For some courses, where appropriate, the sessions from previous years’ Study Weekends have been recorded and made available.
* **Russian Federal Educational Portal** contains a brilliant collection of various useful links to internet resources in macroeconomics (<http://ecsocman.edu.ru/db/sect/23> ). An interactive model of the Goods market equilibrium can be downloaded from [http://www.ecsocman.edu.ru/db/msg/118753](http://www.fgn.unisg.ch/eurmacro/macroeconomics.html). More advanced students can find it interesting to look through other macroeconomics topics such as Economic growth, Business cycles, Consumption and Investments, Money and Inflation, Unemployment, Open Economy Macroeconomics, Macroeconomics of financial markets, Macroeconomic policy, Applied macroeconomics, as well as New Political Economy in Macroeconomics on <http://ecsocman.edu.ru/db/sect/3156>
* **Wolfram demonstrations project**, which includes interactive diagrams:
* <http://www.demonstrations.wolfram.com/KeynesianCrossDiagram/>
* <http://www.demonstrations.wolfram.com/MoneySupplyProcess/>
* <http://www.demonstrations.wolfram.com/MonetaryPolicyInKrugmansModelOfALiquidityTrap/>
* <http://www.demonstrations.wolfram.com/TheKeynesianISLMModel/>
* <http://www.demonstrations.wolfram.com/MacroeconomicEffectsOfInterestRateCuts/>

## Course Outline

**1. Basic macroeconomic concepts (a review)**

Macroeconomics and its central issues: inflation, unemployment, economic growth, stabilisation policy. The problem of aggregation. Money value of goods as a common denominator.

Gross domestic product, value added, final and intermediate goods. Double counting. Savings and investment. The government sector, GDP at market prices and at factor costs. Personal disposable income. Foreign sector: exports, imports, net exports (trade balance). Gross national product, national income. Real vs. nominal variables. Some important national accounting identities.

***(SG ch. 8; W ch. 8; Begg ch.15)***

**2. Aggregate demand components**

National accounts. Determinants of consumption (consumption function) and marginal propensity to consume. Consumption function with income dependent MPC.

Savings and marginal propensity to save. Relationship between consumption and savings in a closed economy without government. Changes in MPC and the effect on savings.

Investment. Savings and transmission mechanism. Interest rate and the present value concept. Marginal propensity to invest. Bonds of the console type (perpetuities). Internal rate of return. Paradox of thrift.

The government sector. Public consumption and the marginal propensity to spend of the government. Government revenues and forms of taxation: lump-sum and proportional (marginal) taxes, progressive and regressive taxes, income and expenditure taxes, corporate tax. Budget surplus and government savings. Tax incentives to save.

The foreign sector. National accounts for the open economy. Demand for export and import, marginal propensity to import. Net exports function with a fixed exchange rate.

***(SG ch.10; W ch. 10, 14.1-14.2; Begg ch.16)***

**3. Goods market equilibrium**

The complete goods market and Keynesian Cross in the closed economy. Characterisation of the equilibrium and the mechanism of adjustment. Autonomous aggregate expenditures, the economy wide marginal propensity to spend and the multiplier. Goods market equilibrium and the multiplier in the open economy.

Government spending and crowding out. The effects of government spending and taxation on output. Government spending multiplier and tax multiplier. Balanced budget multiplier for the different mechanisms of adjustment. Fiscal rules and countercyclical government spending.

The IS representation of the goods’ market equilibrium in the closed economy. Derivation of the IS curve. Shifts in the IS schedule. The interest rate elasticity of investment expenditure function: extreme Keynesian and Classical views. The effects of change in the MPC.

***(SG ch.10, W ch. 10, 14.2; Begg ch.21)***

**4. Redistribution policy in a macroeconomic context**

Transfer payments, taxation and redistribution vs. fiscal policies. Income dependent MPC and income distribution. Heterogeneous agents and the total consumption function. Inequality, poverty, and transfer effect. Redistribution policy and poverty-driven inequality. Redistribution and poverty alleviation. Income redistribution, changes in population composition and the consumption function. Means and ends of the redistribution policy. Voluntary redistribution of income via donations.

Corporate profits, corporate taxation and the firms’ investment function. Retained and distributed profits, investment decision and dividend policy. The problem of double taxation.

Out-sourcing (out-tendering) and privatisation. Labour and capital income vs. profits.

***(SG pp. 114-119; p. 255; W ch. 10, pp. 309-312)***

**5. Financial market equilibrium in the closed economy**

Money and Banking. Functions of Money: a Numeraire, Means of Exchange and Store of Value. Demand for Liquid Assets. Liquidity Preference Approach.

Central Bank, Commercial Banks and Supply of Liquid Assets. Money Base, Public Cash, Reserves, Deposits. Money Creation process. Money multiplier, deposit multiplier and loans multiplier. Upward sloping money supply.

Liquid Assets Market Equilibrium. Derivation of the LM curve. Slope of the LM schedule. Excess demand and Excess supply. Monetary Policy and Shifting in the LM schedule. Liquidity trap and zero lower bound.

***(SG ch.11; W ch. 11; ch. 25-5; Begg ch. 18-19)***

**6. General equilibrium and macroeconomic policies in the closed economy: IS-LM model**

Notion of general equilibrium in a macroeconomics context. Algebra and geometry of general equilibrium, IS-LM framework. Macroeconomic policies and output determination. Classical and Keynesian views.

Expansionary and contractionary fiscal policy: tax financing, internal debt financing, borrowing from the central bank. Expansionary and contractionary monetary policy, policy mix.

***(SG ch. 12; W ch. 12;* Begg ch. 21*)***

**7. AD – AS model (prices, wages and adjustment process)**

Prices and output. Aggregate demand derivation using IS-LM framework. Aggregate supply and labour market. Short-run and long-run aggregate supply. The AD-AS schedule.

Actual and potential output. Aggregate supply in the case Keynesian unemployment and in case of fully flexible prices and wages. Aggregate-supply shock and stagflation. Changes in the potential output: human capital and productive education, land stock and capital accumulation. Demand management and supply-side economics.

Say’s law and general equilibrium in supply determined economy. Criticism of the say’s law and market imperfections[[3]](#footnote-3)♣. Technological improvements, PPF learning by doing, R&D.

**(SG ch. 13; W ch. 9, ch. 13; Begg ch. 2)**

**8. Open economy macroeconomics: exchange rate determination**

Balance of payments: current account, capital account and foreign reserves. Real and nominal exchange rate. Exchange rate determination and the money sector. Foreign exchange market, foreign currency reserves. Appreciation and depreciation of the exchange rate. Exchange rate regimes: fixed and flexible.

***(SG ch. 14; W ch. 14.3; Begg ch. 24)***

**9. General equilibrium in a small open economy: IS-LM-BP model**

General equilibrium in an open economy and macroeconomic policies. Capital mobility vs. capital controls. Mundell-Fleming model. Monetary and fiscal policies under fixed and flexible exchange rates with perfect capital movements and no capital mobility. The effects of the fall in international prices: the benchmark case of a “small” open economy.

Introducing flexibility of prices and wages. Effectiveness of macroeconomic policies under various institutional settings.

***(SG ch. 14; W Ch. 14.4; Begg ch.24-25)***

**10. International macroeconomics and policy transmission**

Relaxing assumption of a “small” open economy. Two-country setting and simultaneous determination of income and exchange rate when countries are main trading partners. Repercussion effects.

Monetary policy abroad: the case of perfect and no capital mobility under alternative exchange rate regimes. Policy transmission and repercussion effects in the case of simultaneous changes in current account and capital account.

Social vs. fiscal policy abroad: sensitivity of macroeconomic outcomes to distribution policy. A shift in demand and transfer problem.

***(SG ch. 14; W ch. 14, pp. 419-423)***

**11. Unemployment**

Types of unemployment: frictional, structural, demand-deficient (cyclical), classical unemployment. Natural rate hypothesis. Voluntary and involuntary unemployment. Private and social costs of unemployment.

Short-run and long-run unemployment, nominal and real wage rigidity. Trade union bargaining, efficiency wage theory, implicit contracts, insider-outsider models, search and matching.

***(SG ch.9.3, W ch.9.3, ch.13; ch.13; Begg Ch. 22)***

**12. Inflation**

Inflation: CPI, PPI and GDP deflator, core inflation. Real money balances and money illusion. Hyperinflation and flight from money. The role of expectations and inflation persistence.

Output-inflation trade-off. Short-run and long-run Phillips curves. AS shocks and stagflation.

***(SG ch1; W ch.13;Begg Ch. 22; Blake ch. 7.2.3, 7.3-7.5)***

## Hours Distribution

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| --- | --- | --- | --- | --- | --- |
| # | **Topic** | **Total hours** | **Contact Hours** | | **Self-study** |
| **Lectures** | **Seminars** |
| 1. | Basic macroeconomic concepts | **8** | 2 | 2 | 4 |
| 2. | Aggregate demand components | **12** | 4 | 2 | 6 |
| 3. | Goods market equilibrium | **18** | 6 | 6 | 6 |
| 4. | Redistribution policy in a macroeconomic context | **22** | 6 | 6 | 10 |
| 5. | Financial market equilibrium in the closed economy | **14** | 4 | 4 | 6 |
| 6. | General equilibrium and macroeconomic policies in the closed economy: IS-LM model | **20** | 6 | 6 | 8 |
| 7. | AD – AS model (prices, wages and adjustment process) | **16** | 4 | 4 | 8 |
| 8. | Open economy macroeconomics: exchange rate determination | **10** | 2 | 2 | 6 |
| 9. | General equilibrium in a small open economy: IS-LM-BP model | **18** | 4 | 6 | 8 |
| 10. | International macroeconomics and policy transmission | **22** | 6 | 6 | 10 |
| 11. | Unemployment | **10** | 2 | 2 | 6 |
| 12. | Inflation | **10** | 2 | 2 | 6 |
|  | **Total:** | **180** | **48** | **48** | **84** |

1. \* This Syllabus was last updated in August 2015. [↑](#footnote-ref-1)
2. Those topics are ‘Redistribution policy in a macroeconomic context’ and ‘International macroeconomics and policy transmission’ [↑](#footnote-ref-2)
3. ♣ This material is not directly examinable and it offers interested students a better understanding of some of the current debates in economics. [↑](#footnote-ref-3)