

Syllabus

Course description

The Introductory Economics (Macroeconomics) is a two semester course for the first-year students.

The course gives the introduction to the macroeconomic fundamentals and to the main concepts and principles of macroeconomic theory and policy. The course deals with the problems of aggregate product and national income determination, measurement and problems of unemployment and inflation and their trade-off, commodity market equilibrium, money supply, economic growth and economic fluctuations first of all in order to understand the main instruments, principals and consequences of fiscal and monetary policy in the short and in the long run. A special part of the course is devoted to the problems of the open economy such as trade policy and trade restrictions, balance of payments structure, exchange rates and the determinants of their changes.

The course is designed to prepare the students for the Advanced Placement Exam (AP[®]) held at the end of the second semester. The course is taught in English. But as the students are also studying for Russian SU-HSE degree in Economics, knowing the economic terminology in Russian through reading text-books in Russian is also required.

Course prerequisites and place in the educational program

The course of Introductory Macroeconomics takes two semesters (four modules) in the first year, and since it is taught in English needs the fluent knowledge of this language. The course of Introductory Macroeconomics is a pre-requisite for the Intermediate Macroeconomics.

Course objectives

The purpose of the course is to give students a thorough understanding of the principles of economics that apply to an economic system as a whole and of the mechanism of macroeconomic processes and different types of macroeconomic policy.

The specific aims of the course are:

- to give the knowledge of macroeconomic terminology and basic macroeconomic concepts and issues
- to give the systematic notion and understanding of macroeconomic performance and aggregate economic activity
- to show the economic intuition of macroeconomic process and macroeconomic policy
- to promote evaluation of determinants of economic progress and economic decisions made by policymakers
- to explain the main principals of macroeconomic analysis using simple algebra and graphs
- to teach how to generate, interpret, label, and analyze graphs, charts, and data to describe and explain economic concepts
- to form the economic way of thinking, that is to teach to think like economists: to question, to evaluate costs and benefits, to explore the many ways in which one action causes secondary actions, to use the intuitive analysis of economic process.
- to make acquaintance with the main schools of thought in the interpretation of macroeconomic events
- to introduce to the principles of solving macroeconomic problems, interpretation and analysis of the stylised economic facts
- to form ability in reading and understanding economic literature.

Having completed this course the student is expected to have understood:

- the principle how the economy works, using a model of the circular flow of income and products that contain the four sectors: households, businesses, government, and international.
- the key measures of economic performance: aggregate output and aggregate income, unemployment, and inflation; the main concepts in evaluation of total output and total income such as gross domestic product (including the ways of its measurement and its components), gross national product, national income, personal income and disposable income and their relationship to each other; the nature and causes of unemployment, its measurement, types and costs (both individual and social), the concept of the natural rate of unemployment and the factors that affect it; the notion, measurement, causes and costs of inflation;
- the difference between the nominal and real variables in macroeconomics; the main price indices, such as the consumer price index (CPI), and the gross domestic product (GDP) deflator, the ways how construct them and the difference between them;
- the notion, structure, determinants and the simple model of the aggregate demand (Keynesian Cross model), the consumption and investment functions and their main determinants, the multiplier effect and its economic intuition; the explanation of the «paradox of thrift»;
- the role of government and the main instruments, mechanism, types and consequences of the fiscal policy, the difference between the influence of the changes in government purchases and taxes on the economy; the limitations of the active fiscal policy such as crowding-out effect and budget deficit;
- the notion, types and functions of money, motives for holding money, the time value of money, the definitions and determinants of the demand for money and the supply of money; the role of the central bank and commercial banks in creating money, the economic intuition of the deposit, loan and money multiplier effects; the equilibrium condition for the money market and the ways of its restoration;
- the instruments, mechanism and the influence of the monetary policy on the key macroeconomic variables in the short and in the long run;
- the comparative effectiveness of fiscal and monetary policy in the closed economy and its determinants;
- the difference between the money market and the loanable funds market; the role of the loanable funds market in determining the real interest rate;
- the concept of aggregate supply and its determinants in the short and in the long run; the concept and factors of economic growth;
- the influence of the changes in aggregate demand and aggregate supply in the short and in the long run on the main macroeconomic variables;
- the trade-off between unemployment and inflation in the short run and in the long run, the concept of the Phillips curve and its factors;
- the notion and sources of the long-run economic growth, the role of productivity in raising real output and the standard of living, and the role of investment in human capital formation and physical capital accumulation, research and development, and technical progress in raising productivity; the capacity of public policies to influence the long-run economic growth of an economy.
- the concept of the open economy and its problems, the base of the international trade and the role of comparative advantage, the types of trade policy and the influence of trade restrictions, the base and determinants of the capital flows between countries;
- the notion and the determinants of the exchange rates and the influence of their changes on the main macroeconomic variables, the difference between fixed and flexible exchange rates; between nominal and real exchange rate;

- the structure of the balance of payments and the difference between its financing under fixed and flexible exchange rates regimes, the consequences of fiscal and monetary policy in the open economy under different regimes of the exchange rates.

Studying methods

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

Lectures (2 hours a week)

The attendance at lectures is recommended, because lectures offer a verbal presentation and explanation of the material needed to understand the main macroeconomic concepts and problems and in order to prepare successfully for an APT exam. The lecture materials include the main models, formulas and graphs followed by the explanation of the economic intuition of each process and are aimed to help a student better understand the reading of the textbooks and deeply know the core of macroeconomic theory. Some short questions of (having) a précising, but not discussion character are allowed during the lecture. If a student has missed a lecture, he/she is advised to borrow and copy the lecture notes from and discuss its contents with his/her fellow who did attend the lecture. The unclear and difficult questions is better to consult with a tutor during classes or the tutor's office hours.

Classes (2 hours a week)

Classes start in the second week of the semester. During classes students get the opportunity to discuss the lecture material, to ask the unclear questions, to discuss the main problems of home assignments. At the same time the tutor have the opportunity to explain the most difficult issues of each theme, answer the students' questions concerning both the lecture materials and the home assignments, to check the knowledge and understanding by the students of the topics and details of each theme that can be done in the form of students' answers to the tutor's questions, solving problems, examining cases and writing quizzes (the optimal duration of the quiz is not longer than 20 minutes).

Teachers' consultations (each week)

The aim of teachers' consultations is to give thorough explanations of the material discussed in lectures and classes but which remained unclear to a student or a group of students. Consultations are also needed to explain mistakes made by students in solving problems, fulfilling the tasks of home assignments and in answers to the tasks of mock exams. Teachers' consultations have sense and will be useful only in the case when a student failed to investigate and understand the problem in the process of self-studies while examining corresponding lecture notes and textbooks.

Written home assignments (1 per one or per two weeks)

Home assignments are distributed one per at least two weeks and include multiple-choice questions, conceptual and numerical problems, and free-response questions. Each home assignment usually concerns the questions upon one theme previously discussed in the lecture and must be delivered before the next lecture (the date of each delivery is pointed out). Then it is checked and discussed in the class during seminars. The work must be done carefully and must contain complete and detailed answers to each task with definitions, obligatory economic intuition and explanations and with the use of formulas and graphs where necessary. Its aim is not only to check the knowledge and understanding of the material of each theme by the student, but mainly of his/her ability to analyse macroeconomic problems. Home assignments are examined and marked by class teachers. Those students who don't deliver their homeworks in time get 0 points. The total mark for home assignments is a weighted one from all the marks received by a student for this type of work and is an important part of a resulting mark according to which the students are ranged.

Self-study

Because of the time constraint of lectures and classes students are expected to study and gain the understanding of material by examining of the recommended textbooks and study guides and making revision and test training. It will help to write the correct and complete answers to home assignments, quizzes, be active during classes and is necessary to be well prepared for the mock exams and feel confident during the AP Exam. A good idea (and a useful advice) for the students is to look through the material of the textbooks before each lecture to understand the theme better. The most difficult questions can be discussed with the tutor during the tutor's office hours.

Forms of control

Intermediate control

Students are expected to pass two Mock exams in the format of Advanced Placement Exam: the first Mock exam covers the first part of the course, and the second one covers the whole course. Each Mock exam consists of two parts: section I includes 60 multiple choice questions and lasts 70 minutes, and section II contains 3 free-response questions and lasts 60 minutes. Mock exams are set and graded in accordance with AP exam rules by local teachers, on a 100-point scale.

Final control

Students have joint examination paper in micro- and macroeconomics in the format of Advanced Placement Exam in the end of the second semester.

Assessment and grade determination

In the end of the year students sit an external AP exam which is provided in the written form and graded by the AP Board from 1 to 5. This grade is used as enter grade to the University of London external programme. The structure of the final examination is standard: it includes 60 multiple choice questions on all the themes, studied in the first year and 3 free-response questions, usually supposing the analysis of the effect of different types of macroeconomic policy on the main macroeconomic variables and in different macroeconomic situations. The tasks vary from year to year, but though the examination tasks of previous years (most of them are available in the ICEF library) may not be appropriate preparation for the next year final examination, they constitute a good foundation for the AP exam preparation.

The AP exam gives 40% of ICEF grade (from 2 to 5) and the other 60% is provided by students' grades for home assignments (10%) and Mock exams (50%).

Literature

Main reading¹

1. Begg D., Dornbusch R., Fischer S. *Economics*. McGraw-Hill, 9th edition. (BDF)
2. Матвеева Т.Ю. «Основы макроэкономики». Слайды лекций. Учебные материалы МИЭФ. Москва, 2011.

Additional reading*

1. Mankiw N.G. *Principles of Economics*, The Dryden Press. (Русский перевод: Мэнкью Н.Г. Принципы Экономикс. Питер, С.-Петербург, 1999).
2. Samuelson P. *Economics*. (The latest edition that you can find). (Русский перевод: Самуэльсон П., Нордхаус В. Экономика. Бинном-КноРус, Москва, 1997).

¹ Available in the ICEF library.

3. McConnell C.R., Brue S.L. *Economics. Principles, Problems, and Policies*. McGraw-Hill. (The latest edition that you can find). (Русский перевод: Макконнелл К.Р., Брю С.Л. *Экономика: Принципы, Проблемы и Политика*. М. 2002.)
4. Blake D. *A Short Course of Economics*. McGraw-Hill, 1993.
5. Gordon R. *Macroeconomics*. HarperCollins College Publishers, 6–th edition, 1993.
6. Lipsey R.G., Chrystal K. *An Introduction to Positive Economics*. Oxford University Press, 1995.
7. Фишер С., Дорнбуш Р., Шмалензи Р. *Экономикс*. Перевод с англ. М. Дело. 1993.
8. Долан Э., Линдсей Д. *Макроэкономика*. Перевод с англ. СПб. 1994.
9. Долан Э., Кемпбелл К., Кемпбелл Р. *Деньги, банковское дело и денежно-кредитная политика*. Перевод с англ. М. 1991.
10. Линдерт П. *Экономика мирохозяйственных связей*. Перевод с англ. М. 1992.
11. Хейне П. *Экономический образ мышления*. Перевод с англ. М. 1991.
12. Агапова Т.А., Серегина С.Ф. *Макроэкономика*. М., ДиС. 2010.
10. Матвеева Т.Ю. *Введение в макроэкономику*. М., ГУ-ВШЭ. 2010.
11. Матвеева Т.Ю., Никулина И.Н. *Основы экономической теории*. М., Дрофа. 2005.

Study guides*

1. Smith P., Begg B. *Economics Workbook*. Fifth Edition. McGraw-Hill, 1997.
2. Salvatore D., Diulio E. *Schaum's Outlines of Theory and Problems of Principles of Economics*. McGraw-Hill, 2d edition. 1995.
3. Diulio E. *Schaum's Outlines of Theory and Problems of Macroeconomic Theory*. McGraw-Hill, 2d edition. 1990.
4. Ward D., Begg D. *Student Workbook for Economics*. McGraw-Hill, 7th edition. 2003.
5. Rutledge J. *Study Guide to accompany Macroeconomics by Dornbusch, Fischer, and Startz*. Eighth Edition. McGraw-Hill, 2000.
6. Морган Дж.М. *Руководство по изучению учебника С.Фишера, Р.Дорнбуша, Р.Шмалензи "Экономика"*. М. Дело. 1997. (Русский перевод 2-го Издания Morgan J.M. *Study Guide to Accompany Fischer, Dornbusch, and Schmalensee "Economics"*).
7. Э.Дж.Долан, Б.Домненко. *Экономикс*. Англо-русский словарь-справочник. М., Лазурь. 1994.
8. Матвеева Т.Ю. *Руководство для студентов по курсу «Основы макроэкономики»*. Учебно-методические материалы. Учебные материалы МИЭФ. Москва, 2004.

Literature for the AP exams Preparation, recommended by the AP Committee**²

1. Gottheil, Fred M. *Principles of Economics*. 3rd ed. Cincinnati: Thomson South-Western, 2002.
2. Morton, John S., and Rae Jean B. Goodman. *Advanced Placement Economics: Macroeconomics, Student Activities*. 3rd ed. New York: National Council on Economic Education, 2003.
3. Pool, John Charles, and Ross M. LaRoe. *The Instant Economist*. Reading, Mass.: Addison-Wesley, 1985.
4. Colander David C. *Economics*. 4th ed., 2001.
5. Anderson, David A., and James C. Chasey. *Favorite Ways to Learn Economics*. Mason, Ohio: Thomson South-Western, 2002.
6. Chasey, James. *Multiple-Choice and Free-Response Questions in Preparation for the AP Economics ("Micro" and "Macro") Examination*. 2nd ed. Brooklyn: D & S Marketing Systems, 2002.
7. Kaplan. *AP Macroeconomics/Microeconomics: An Apex Learning Guide*. [New York]: Simon and Schuster, 2005.

** May be ordered, but need to be paid.

8. Musgrave, Frank, and Elia Kacapyr. *Barron's How to Prepare for the AP Microeconomics/Macroeconomics Advanced Placement Examinations*. Hauppauge, N.Y.: Barron's Educational Series, 2001.
9. Dodge Eric R. *5 Steps to a 5 AP Microeconomics and Macroeconomics*. McGraw Hill. 2010.
10. Arnold, Roger A., *How to Think Like an Economist*, Thompson South-Western, Mason, OH, 2005.
11. Hamermesh, Daniel S., *Economics is Everywhere*, McGraw Hill. 2004.

Internet Resources

<http://www.apcentral.collegeboard.com>

Using this site, students can find the examples of previous AP Macroeconomics exams (free-response questions) with answers and scoring guidelines; course description and requirements for the AP exam.

Course outline

1. Introduction to Macroeconomics

Subject of Macroeconomics. Difference of Macroeconomics from Microeconomics. Key Macroeconomic Problems. Major Macroeconomic Issues: Business Cycle, Unemployment, Inflation, Long-run Economic Growth.

Principles and Tools of Macroeconomic Analysis. Macroeconomic Models and their Variables. Long run and Short run Analysis in Macroeconomics.

Aggregation. Macroeconomic Agents and Macroeconomic Markets. The Model of Circular Flows. Aggregate Product, Aggregate Expenditures and Aggregate Income. Circular Flows in the Closed Private Economy. Consumption Spending. Investment Spending. The Role of Financial Market. Economy with Government: Government Spending, Taxes (direct and indirect), Transfers, Net taxes. Government Budget. Circular Flows in the Mixed Closed Economy. Open economy. Net Exports. Capital Flows. Net Foreign Investment. Circular Flows in the Open Economy. Stock and Flow Variables.

The Major National Accounts Identity. Other Important Identities. Injections and Leakages. Total Investment and Total Saving. Capital Formation Equation.

The Macroeconomic System. Market Economy: the Key Concepts of Aggregate Demand and Aggregate Supply. Equilibrium Output and Equilibrium Price Level. Macroeconomic Policy.

(BDF ch. 19)

2. National Accounts. Measuring Output and Income

National Income and Product Accounting System.

Gross Domestic Product (GDP). Methods for Calculating GDP. The Value Added Approach. The Expenditure Approach. The Structure of Aggregate Expenditure. The Components of Consumption. Investment and its Structure. Inventory Investment. Gross and Net Investment. Government Spending. Net Exports. The Income Approach for Calculating GDP. The Structure of Aggregate Income. Equivalency of Product, Expenditure, Income and Value Added Approaches to Measurement of Gross Domestic Product.

Other Variables of National Accounts. Gross National Product. Difference of GNP from GDP. The Role of Factor Incomes. Net Domestic and Net National Product. National Income. Personal Income. Disposable Income.

Nominal and Real GDP. Price Indices. GDP Deflator, Consumer Price Index and Their Differences. How to Measure Inflation. Real GDP and Real GDP per Capita. Rate of Growth. The Measurement of Economic Well-being and Welfare. Actual Real and Potential Real GDP. GDP Gaps.

(BDF ch. 19)

3. Goods Market Equilibrium in the Private Closed Economy

Determination of Output in the Long run. Supply-side Analysis.

Determination of Output in the Short run. Demand-side Analysis.

The Composition of Aggregate Demand. Components of Aggregate Demand in the Closed Economy.

Consumption Demand and its Determinants. Consumption Function and Consumption Line. Autonomous Consumption Demand. Marginal and Average Propensity to Consume. Saving Function and Saving Line. Marginal and Average Propensity to Save. The Consumption Puzzle. Theories of Consumption.

Investment Demand and its Determinants. Investment Function and Investment Demand Curve. Theories of Investment.

Aggregate Expenditures in the Closed Private Economy. Planned Expenditures and Actual Expenditures. The 45°line and Equilibrium Output in the Two-sector Model in the Short run ("Keynesian Cross Model"). Non-equilibrium Situations. The Role of Inventory Changes in the Restoration of Equilibrium in the Goods Market.

Another Approach: Planned Saving equals Planned Investment. Equilibrium Output and Potential Output. Inflationary and Unemployment (recessionary) Gaps.

The Multiplier Effect of Autonomous Spending on Output.

The «Paradox of Thrift».

(BDF ch. 20)

4. Goods Market Equilibrium in the Mixed Closed and in the Open Economy

The Government in the Circular Flows. The Government and Aggregate Demand. The Effect of Government Spending on Output. The Effect of Taxes on Output. Lump-sum and Proportional Income Taxes. The Government Spending, Tax, Transfer and Balanced Budget Multipliers.

The Foreign Sector in the Circular Flows. Net Exports and Aggregate Demand. Autonomous Net Exports and its Determinants. Marginal Propensity to Imports. The Multiplier Effect in the Open Economy.

Keynesian Cross Model as the Model of Aggregate Demand.

The Aggregate Demand Curve and its Shape. Effects Explaining the Negative Slope of Aggregate Demand Curve: the Pigou Effect, the Keynes' Effect, the Mundell-Fleming Effect.

Causes of the Shifts of the Aggregate Demand Curve.

Inflation and the Multiplier Effect.

(BDF ch. 21)

5. Fiscal Policy

Fiscal Policy and its Objectives. Instruments of the Fiscal Policy. Fiscal Policy and Aggregate Demand. Types of the Fiscal Policy. Expansionary and Contractionary Fiscal Policy. Discretionary and Automatic Fiscal Policy. Automatic (built-in) Stabilizers.

The Mechanism of the Fiscal Policy. Limitations of the Active Fiscal Policy. Crowding out Effect. Fiscal Policy and Government Budget Deficit. Economic Effects of Government Budget Deficits. Types of Budget Deficits. National Debt and its Burden.

Effectiveness of Fiscal Policy in the Short run. The Role of the Interest Rate Sensitivities of Investment and of the Demand for Money. The Role of Fiscal Policy in the Closed Economy: Monetarist and Keynesian views.

Fiscal Policy and Aggregate Supply. The Laffer Curve. The Effect of Fiscal Policy in the Long run.

(BDF ch. 21)

6. Money and Money Market

Money Market as the Segment of Financial Market. Types of Financial Assets: Money, Stocks, Bonds.

Money and its Functions. Kinds of Money. Monetary Supply Aggregates.

Financial Intermediaries. Banks. Mutual funds. The Banking System. The Central Bank and its Functions. Commercial Bank and its Balance Sheet. Assets and Liabilities. Bank Reserves. Loans. Banks as Creators of Money. The Deposit Multiplier. The Loan Multiplier. Limitations of Deposit and Loan Multiplier Process.

Determinants of Money Supply. The Monetary Base (high-powered money) and the Money Multiplier. The Money Supply Curve.

The Demand for Money. Motives for Holding Money (transaction, precautionary, and speculative). Determinants of the Demand for Money: price level, real GDP and interest rate. The Time Value of Money. Interest Rate Determination. The Money Demand Curve. The Slope and the Shifts of the Money Demand Curve.

Money Market Equilibrium. Liquidity Preference Theory. The Interest Rate and the Bond Price.

The Loanable Funds Market. The Difference between the Money Market and the Loanable Funds Market. Determinants of the Demand for Loanable Funds. Determinants of the Supply of Loanable Funds. Loanable Funds Market Equilibrium and the Equilibrium Real Interest Rate. Differences between Nominal and Real Interest Rate.

(BDF ch. 22)

7. Monetary Policy

Monetary Policy, its Goals and Targets. The Tools of Monetary Policy. The Required Reserve Ratio. The Discount Rate. The Open Market Operations.

The Types of Monetary Policy. Expansionary and Contractionary Monetary Policy.

Money Transmission Mechanism. How Changes in Money Supply via Changes in the Interest Rate Affect Investment Demand and thus Aggregate Demand, that in turn Influences Real Output and Price Level. Interest Rate as the Link between Money and Goods Markets.

Effectiveness of Monetary Policy in the Short run. The Role of the Interest Rate Sensitivities of Investment and of the Demand for Money. The Role of Monetary Policy in the Closed Economy: Monetarist and Keynesian views.

The Effect of Monetary Policy on Real Output in the Long run. The Quantity Theory of Money. Neutrality of Money in the Long Run.

(BDF ch. 23)

8. Labour Market and Aggregate Supply

Production Function and Aggregate Supply. The Role of Labour Market.

The Demand for Labour and its Determinants. The Labour Demand Curve: its Slope and Shifts. The Supply of Labour. The Slope and Shifts of the Labour Supply Curve. Labour Market Equilibrium. Real Wage Rate.

Labour Market with Flexible Wages. Long run Aggregate Supply Curve: its Determinants, Slope and Causes for Shifts. Long run Aggregate Supply and Economic Growth.

Labour Market with Sticky Wages. Short run Aggregate Supply Curve. Determinants of Aggregate Supply in the Short run. The Slope and Shifts of the Short run Aggregate Supply Curve.

Classical and Keynesian Approaches to Aggregate Supply.

The Modern Theories of the Short run Aggregate Supply. Sticky Wage Theory. Workers Misperception Theory. Imperfect Information Theory. Sticky Price Theory. The Lucas Equation. The International Differences in the Slope of the Short run Aggregate Supply Curve.

(BDF ch. 26, 27)

9. Aggregate Demand and Aggregate Supply

The Aggregate Demand and Aggregate Supply Model: its Importance and Analytical Abilities.

Equilibrium in the AD-AS model in the Long run. Long-run Economic Growth and its Sources.

Equilibrium in the AD-AS model in the Short run. Economic Fluctuations and their Sources. The Business Cycle and its Phases. Theories of the Business Cycle.

Changes in Aggregate Demand and the Equilibrium in the AD-AS Model. The Importance of the Shape of the Aggregate Supply Curve in Determining the Effect of Changes in Aggregate Demand on the Economy.

Changes in Aggregate Supply and the Equilibrium in the AD-AS Model.

Shocks of Aggregate Demand and Aggregate Supply. How an Economy Responds to a Short-run Shock. How an Economy Adjusts to Long-run Equilibrium in the Absence of Any Policy Actions.

Adverse Supply Shocks and Demand Management Policy Dilemma. How to Fight Stagflation: Different Approaches.

Fiscal and Monetary Policy in the Framework of the AD-AS Model. Their Impact on Aggregate Demand and Aggregate Supply in the Short Run and in the Long Run. Their Impact on Real Output and Price Level in the Short Run and in the Long Run.

(BDF ch. 25)

10. Unemployment

Disequilibrium in the Labour Market and Unemployment.

Population and Labour Force. Non-labour Force and Unemployed. Measurement of Unemployment. Rate of Unemployment and its Drawbacks as a Measure of Unemployment. Labour Force Participation Rate. Labour Market Flows.

Nature and Causes of Unemployment. Types of Unemployment: Frictional, Structural and Cyclical. Natural Rate of Unemployment and its Determinants. Factors that Affect Natural Rate of Unemployment. The Model of Labour Force Dynamics.

Voluntary and Involuntary Unemployment. Unemployment in the Classical Model. Unemployment in the Keynesian Model. The Wait Unemployment and its Causes. Theory of Efficiency Wages. Efficiency Wages and Asymmetric Information.

Actual Rate of Unemployment. The Individual and the Social Cost of Unemployment. Unemployment and Output. Okun's Law.

Government Policy to Reduce Unemployment. Ways of Reducing Natural Rate of Unemployment. Ways of Reducing Cyclical Unemployment.

(BDF ch. 27)

11. Inflation

Inflation and its Measurement. The Price Level and the Rate of Inflation. Types of Inflation: Creeping, Galloping and Hyperinflation. Deflation and Disinflation.

Causes of Inflation. Demand-pull and Cost-push Inflation. Demand-pull Inflation and the Quantity Theory of Money. Classical Dichotomy and Neutrality of Money. The Monetary Rule. Government Budget Deficits and Inflation. The Inflation Tax. Inflation and the Purchasing Power of Money.

Inflation and Real Incomes. Stagflation. Inflationary Spirals: price-wage type and cost-price type.

Costs of Inflation: Shoe-leather Costs, Menu Costs, Misallocation of Resources, Tax Distortions, Confusion and Inconvenience.

Anticipated and Unanticipated Inflation. Costs of Unanticipated Inflation. Nominal Interest Rate and Inflation: Fischer Effect. Real Interest Rate *ex ante* and *ex post*. Inflation and Uncertainty.

Hyperinflation: Causes and Definition. How to Fight Hyperinflation.

(BDF ch. 26)

12. The Phillips Curve

Trade-offs between Inflation and Unemployment. The Original Phillips Curve. The Short-run Phillips Curve: the Explanation of its Slope and the Causes for Shifts. Expectations-Augmented Phillips Curve. Types and Role of Inflationary Expectations. The Effect of Supply Shocks. The Short-run Phillips Curve and Demand-side Policy Dilemma.

The Phillips Curve as the Model of Aggregate Supply.

Natural Rate Hypothesis and the Long-run Phillips Curve: its Shape and Causes for Shifts.

The Movement of the Economy from the Short run to the Long run Equilibrium under Adaptive Expectations. The Movement of the Economy from the Short run to the Long run Equilibrium under Rational Expectations.

The Cost of Reducing Inflation. The Sacrifice Ratio. Strategies to Reduce Inflation. Costs of Reducing Inflation: Rational Expectations Approach.

(BDF ch. 26)

13. Economic Growth

Concept of Economic Growth. Economic Growth versus Business Cycle. Measures of Economic Growth. Economic Growth and the Standard of Living. "The Rule of 70".

Types and Sources of Economic Growth.

Determinants of Economic Growth. Economic Growth and the Role of Labour Productivity. Determinants of Labour Productivity. The Role of Capital Accumulation, Investment in Human Capital, Research and Development, and Technological Progress.

Thomas Malthus and his Theory of Economic Growth.

Government Policy and Long-run Economic Growth. The Role of Investment and Saving. Neoclassical Theory of Economic Growth. The Role of the Technological Progress.

Contradictions and Problems of Economic Growth.

(BDF ch.30)

14. The Open Economy

The Closed Economy versus the Open Economy. International Links between Economies.

Openness in the Goods Markets. International Trade: Exports, Imports and Net Exports. Factors of International Trade. Absolute Advantage. Comparative Advantage. The Gains from Trade. Trade Policy. Free Trade and Protectionism. Obstacles for Free Trade and Arguments for Protectionism. Effect of Tariffs and Quotas.

Openness in the Financial Markets. International Financial System. Capital Flows: Capital Inflows and Capital Outflows. Determinants of Capital Flows.

Foreign Exchange Market and its Equilibrium. Determinants of Demand for National Currency. Determinants of Supply of National Currency. Nominal and Real Exchange Rate.

Fixed and Flexible Exchange Rate Systems. Fixed Exchange Rate System: the Central Bank Interventions. Devaluation and Revaluation. Sterilization. Flexible Exchange Rate System: Depreciation and Appreciation.

Balance of Payments and its Structure. Current Account. Capital Account. Credits and Debits in the Balance of Payments. The Official Reserves Account. Official Reserves and their Role. The Balance of Payments under Fixed Exchange Rates. The Balance of Payments under Flexible Exchange Rates.

Monetary and Fiscal Policy in the Open Economy under Fixed Exchange Rates System: Mechanism and Economic Effects. Monetary and Fiscal Policy in the Open Economy under Flexible Exchange Rates System: Mechanism and Economic Effects.

(BDF ch. 28, 29)

15. Macroeconomics Schools of Thought

Major Schools of Macroeconomic Thought. The Classical School. The Smith's "Invisible Hand". The Say's Law. Quantity Theory of Money and Monetarism. The New Classical Macroeconomics. Rational Expectations School. J.M. Keynes and his "General Theory of Employment, Interest and Money". Eclectic Keynesians. Extreme Keynesians. Real Business Cycle Theory. Supply-side Economics Theory.

Fields of Disagreement: Behavior of the Economy; Speed of Market Clearing; Type of Expectations; Difference between the Short run and the Long run; Nature and Sources of Shocks in the Economy. Comparative Analysis of Equilibrium Formation in the Economy, Determinants of Economic Equilibrium and Non-equilibrium Situations by Different Schools.

Keynesians versus Monetarists: the Basic Equations; the Money Transmission Mechanism; the Velocity of Money; the Shape of Aggregate Supply Curve.

Alternative Views on the Role, Effects and Effectiveness of Government Policy. Fiscal and Monetary Policy Prescriptions: Classical Economists, Keynesians, Monetarists, New Classical Macroeconomists, Supply-siders.

Contemporary Debates over Macroeconomic Policy.
(BDF ch. 32)

Distribution of hours of the course by topics and types of work

№	Topic	Contact Hours		Home Assignments	Self-study	Total Hours
		Lectures	Seminars			
1	Introduction to Macroeconomics	4	2		6	12
2	National Accounts. Measuring Output and Income	4	4		6	14
3	The Determination of National Income. Goods Market Equilibrium in the Private Closed Economy	4	4		8	16
4	The Determination of National Income. Goods Market Equilibrium in the Mixed Closed and in the Open Economy	4	2		6	12
5	Fiscal Policy	4	2		6	14
6	Money and Money Market	4	2		6	12
7	Monetary Policy	4	2		6	14
8	Labour Market and Aggregate Supply	4	2		6	12
9	Aggregate Demand and Aggregate Supply	8	2		6	16
10	Unemployment	2	2		6	10
11	Inflation	2	2		6	10
12	The Phillips Curve	4	2		6	12
13	Economic Growth	4	2		6	14
14	The Open Economy	6	4		7	17
15	Macroeconomic Schools of Thought	4	2		6	12
	TOTAL	64	32		93	189

