

Syllabus

MACROECONOMICS Instructors: Dmitriy A. Veselov.

1. Course Description

- a. Title of a Course **Macroeconomics**
- b. Pre-requisites The basic knowledge of calculus and mathematical analysis
- c. Course Type **Compulsory**
- d. Abstract: The course focuses on selected topics which are central to modern macroeconomics, like the short-run economic fluctuations, fiscal and monetary policies, macroeconomics of financial markets, and open macroeconomics. The course

2. Learning Objectives

The objectives of the course are:

- to provide students with the knowledge of core concepts and models of economics,
- to develop students' ability to apply economic models to the analysis of specific economic cases
- to provide students with the knowledge of methodological tools and their applications to the analysis of general problems in economics and social sciences.

3. Learning Outcomes

Course gives opportunities to students to apply macroeconomic analysis using both graphical and algebraic techniques to the study of contemporary and historical economic cases, to put their research and professional interests into a broader political and macroeconomic context, to communicate their ideas using modern internationally recognised professional language of economists.

	TOPIC	Total	Lectures	Classes	Self-study
Part 1. Core.					
1	Basic macroeconomics problems. Macroeconomic variables.	12	2	4	18
2	Goods market equilibrium. The role of the government in regulating business cycles.	12	2	4	20
3	Introduction to macroeconomics of financial markets	12	4	4	20
4	Fiscal and monetary policies in the IS-LM model	12	2	4	20
5	Labour market, wage and price determination. Unemployment		2	4	20

7	AD-AS model. Inflation, expectations and Phillips curve	16	4	6	20
7	Open economy macroeconomics: BOP, CIP, UIP, LOOP. IS-LM-BP model	16	4	6	20
	TOTAL	190	20	32	138

Description of topics.

1. Basic macroeconomic problems and concepts. Macroeconomic variables

Macroeconomics and its central issues: inflation, unemployment, economic growth, stabilisation policy. The problem of aggregation. Aggregate output, gross domestic product, final good, intermediate good, value added. Nominal GDP and real GDP. GDP growth, expansions, recessions, stagnation. Labour force, employment, unemployment and unemployment rate, discouraged workers, participation rate. Underground economy. Price level, inflation, inflation rate, deflation, GDP deflator, index number, consumer price index (CPI), cost of living. Real vs. nominal variables. Interest rates. Main macroeconomic variables. National accounting identities. The legacy of macroeconomic issues. Historical cross-country dynamics of main economic variables.

Required readings:

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch.1,2.

Further Reading

Blanchard, O. (2009). The State of Macro. Annual Review of Economics, 1, 209–228.

2. Goods market equilibrium. The role of the government in regulating business cycles.

The Great Depression and the birth of Macroeconomics. Keynes's General Theory. Objectives, instruments and the role of the government. The goods market and Keynesian Cross in the closed economy. Characterization 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. Derivation of the IS curve. Shifts in the IS curve The effects of government spending and taxation on output. Government spending multiplier and tax multiplier. Balanced budget multiplier for different mechanisms of adjustment. Fiscal policy rules and the government budget constraint.

Essential Reading

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch.3.

Further Reading

Mankiw, N. Gregory. "Imperfect competition and the Keynesian cross." *Economics Letters* 26.1 (1988): 7-13.

3. Introduction to macroeconomics of financial markets

Functions of Money: a Numeraire, Means of Exchange and Store of Value. The role of financial markets in macroeconomic dynamics. 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. The transactions demand (Baumol-Tobin model). The speculative theory of money demand: demand for money as a safe asset. The modern quantity theory of money. The monetary base and the money supply. The money multiplier model. Control of the central bank over the 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. Fundamental value of assets. Expectations and dynamics of asset prices. Rational bubbles. Monetary policy and possibilities of asset price bubbles creation and bursting

Essential Reading

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch.4. 5.2, 15

Further Reading

- Baumol W., The transaction demand for cash: an inventory theoretic approach, *Quarterly Journal of Economics*, 66, pp.545-556, 1952.
- Friedman M. (1968) "The Role of Monetary Policy". *American Economic Review*, 58, pp. 1-17.
- Tobin J., Liquidity preference as a behaviour towards risk, *Review of Economic Studies*, 25, pp.65-86, 1958
- Hoshi T., A.K.Kashyap, Japan's Financial Crisis and Economic Stagnation, *Journal of Economic Perspectives*, 18 (1), 2004, pp. 3-26.

4. Fiscal and monetary policies in the 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. Strategic interaction between fiscal and monetary authorities. War of attrition in IS-LM framework.

Essential Reading

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch.5

Further Reading

- Romer, David 'Keynesian macroeconomics without the LM curve', *Journal of Economic Perspectives* 14(2) 2000, pp.149-69.
- Hutchison, Michael 'Japan's recession: Is the liquidity trap back?' Federal Reserve Bank of San Francisco. FRBSF Economic Letter/Pacific Basin Notes. 2000-19, 16 June 2000 (available at www.frbsf.org/econsrch/wklyltr/2000/el2000-19.html).

5. Labour market, wage and price determination. Unemployment

Noninstitutionalized civilian population, labor force; out of the labor force, participation rate, unemployment rate, separations, hires, quits, layoffs, duration of unemployment, discouraged workers, nonemployment rate, collective bargaining, reservation wage, bargaining power. Efficiency wage theories, unemployment insurance, production function, labor productivity, markup, wage-setting relation, price-setting relation. Natural rate of unemployment, structural rate of unemployment, natural level of employment, natural level of output. The types and causes of unemployment: frictional, structural and classical (or real wage) unemployment. Hysteresis.

Essential Reading

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch.6

Further Reading

- Ball, Laurence and N.G. Mankiw 'The NAIRU in theory and practice', *Journal of Economic Perspectives* 16(4) 2002, pp.115–36.
- Blanchard, O. 'European unemployment: the evolution of facts and ideas', NBER working paper, No. 11750, 2005.
- Davis, Steven J., R.J. Faberman and J. Haltiwanger 'The flow approach to labor markets: new data sources and micro-macro links', *Journal of Economic Perspectives* 20(3) 2006, pp.3–26.

6. AD – AS model. Inflation, expectations and Phillipse curve

Aggregate supply (AS) relation. The medium run AS curve and the long run AS curve. Explanations of the upward sloping medium run aggregate supply curve. Sticky wages (Keynesian) model. Classical workers' misperception model, new Keynesian sticky price model, new classical imperfect information model of medium run AS. Expectations and the medium run AS. The aggregate demand curve. Explanations of the slope. Equilibrium in aggregate supply-aggregate demand model. Monetary and fiscal policy in the long run and in the medium run. Supply shocks, neutrality of money, stagflation, output fluctuations, business cycles, propagation mechanism.

Phillips curve, wage-price spiral, nominal rigidities, staggering of wage decisions. Modified, or expectations-augmented, or accelerationist Phillips curve. Nonaccelerating inflation rate of unemployment (NAIRU), wage indexation. Okun's law, normal growth rate, labor hoarding, adjusted nominal money growth, disinflation, sacrifice ratio, seignorage. Rational, myopic, adaptive expectations, perfect foresight. Lucas critique and credibility.

Theoretical foundation of inflation targeting policies, the time-inconsistency problem and the debate between precommitment and discretion in the context of monetary policy.

The implications of the main rules designed by macroeconomists for the conduct of monetary policy. Time inconsistency problem and its solutions: constitutional rules, reputation, delegation to an independent authority with different preferences/incentives (independent central banker).

Essential Reading

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch.7-9

Further Reading

Lucas, Robert 'Understanding business cycles', in K. Brunner and A. Meltzer (eds) *Stabilization of the domestic international economy*. 5, pp.7–29. Also in Estrin, S. and A. Marin *Essential reading in economics*. (Basingstoke: Macmillan Press, 1995) first edition [ISBN 9780312125110] Chapter 16.

Zarnowitz, Victor 'Theory and history behind business cycles: Are the 1990s the onset of a golden age?' *Journal of Economic Perspectives* 13(2) 1999, pp.69–90.

7. Open economy macroeconomics: BOP, CIP, UIP, LOOP. IS-LM-BP model

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. Determinants of the trade balance and the Marshall-Lerner condition, the national income identity in an open economy. Uncovered and covered interest parity condition in the financial market, the law of one price. General equilibrium in an open economy and macroeconomic policies. Capital mobility vs. capital controls. Mundell-Fleming model. Determinants of the BP line, the BP slope under alternative assumptions about

international capital mobility. Monetary and fiscal policies under fixed and flexible exchange rates with perfect, imperfect capital movements and no capital mobility. Impossible trinity.

Essential Reading

Blanchard, O. and D.R. Johnson. *Macroeconomics*. Ch. 18, 19 and 20.1–20.2., 21.

Further Reading

- Dornbusch, R., S. Fischer and R. Startz *Macroeconomics*. (New York: McGraw-Hill, 2011) Chapters 12.1–12.3, 18.3 and 20.2, 21
- Mankiw, N. G. *Macroeconomics*. (Worth, 2012) Chapter 6, 13.
- Calvo, Guillermo A., and F.S. Mishkin. ‘The mirage of exchange rate regimes for emerging market countries’, *Journal of Economic Perspectives* 17(4) 2003, pp.99–118.
- Mann, Catherine L. ‘Perspectives on the US current account deficit and sustainability’, *Journal of Economic Perspectives* 16(3) 2002, pp.131–52.

8. Reading List

a. Required

Blanchard, O. and D.R. Johnson.(2013) *Macroeconomics*. Pearson Education Inc.

b. Optional

Carlin, W. and D. Soskice (2006) *Macroeconomics: Imperfections, Institutions, and Policies*, Oxford University Press

Abel Andrew, Bernanke Ben. (2008) *Macroeconomics*. Sixth Edition. Pearson Education Inc.

9. Grading System

The final grades consist of three parts

Current participation and activity – 15%.

Mid-term exam – 35%

Final exam – 50%.

Grades are rounded only once at the end of the course. Guidelines for Knowledge Assessment

Quizzes

Quizzes contains short questions about current materials provided on lectures.

Mid-term and Final exams

Mid-term and final exams includes four forms of assessments: short problems, yes-no questions (with explanations), case studies for analysis of critical thinking.

10. Methods of Instruction

The instructors use traditional methods of instruction by providing well-structured lectures with a lot of illustrations, problems and real case studies and discussing the materials on seminars. All materials can be downloaded on the course cite on [www. Piazza.com](http://www.Piazza.com)