UG Course Outline

EC2202: Macroeconomics
2016/17

Course Overview

EC2202 is a second year core, compulsory course in macroeconomic theory and policy. The course aims to provide students with an understanding of macroeconomics at the intermediate level and introduces an integrated framework for thinking about the determinants of aggregate variables like unemployment, investment, consumption, interest rates, inflation, exchange rates and the balance of trade (net exports).

The Autumn Term covers the core theory, developing an integrated model of goods, financial and labour markets. We focus on the three central variables of macroeconomics - output, unemployment, and inflation - and examine what factors may cause changes in these variables. The course introduces a unified framework for understanding the role of macroeconomic policy, namely the IS-LM model. Despite its simplicity, the IS-LM model is considered to be an essential building block of macroeconomics that helps us analyze business cycles and determinants of output and interest rates in the short run. We extend the IS-LM model to include an open economy and to explore the impact of fluctuations in exchange rates on international trade and cross-border flows of capital.

In the Spring Term, we examine the dynamic elements of the economy, focusing on growth, consumption and investment. We will first study the process of economic growth over the long-run with a special emphasis on the recent economic catch-up of China and East Asia. Then, we will examine the saving decision of a household, which has applications on the effectiveness of tax cuts as economic stimulus and on the effect of housing prices on UK savings rates. Finally, we will study the firm's decision to invest and connect that decision to developments in the stock market.

Learning Outcomes

Upon completion of the course, students should:

- Have acquired a breadth and depth of understanding of macroeconomics and macroeconomic policy-making.
- Have developed a sophisticated set of analytical tools and be able to apply these to address macroeconomic issues.
- Be familiar with a variety of contemporary and historical macroeconomic events.
- Have an understanding of the conceptual and substantial differences between the short, medium and long run.
- Understand why some countries are rich and some are poor, why different economies grow at different rates, and what determines economic growth and prosperity.
- Have an understanding of the factors that account for the recurrent fluctuations in employment and output called the business cycle and the factors are at play in financial crises.
- Understand what causes inflation in the short, medium and long run, and the important of monetary stability.
- Be familiar with the role of monetary and fiscal policy, its impact on the economy and its limitations; understand how taxation, budget deficits, and public debt affect the economy.

**Course Delivery**

The course is taught through a two-hour lecture and a one-hour seminar each week. Lectures begin in week 2, following registration. Seminars commence the week following the first week of lectures. The lectures introduce main economic models and highlight central economic arguments behind these models. Weekly seminars are aimed at practicing solving problems and discussing questions related to the topics covered in class. The seminars are led by teaching assistants. Lectures and seminars are complementary ways of achieving the learning outcomes in this course. To obtain a good result in the final exam students are advised to attend all lectures and to complete problem sets each week before showing up in class. The problem sets are designed to prepare students for the exam.

Please note that excessive seminar absences can result in the student being barred from the final exam, as specified in the Economics Department UG Handbook.

**Course assessment**

The final mark is composed of

- Problem Sets 5% (4x1.25%)
- Two Midterm Exams (one per Term) 30% (2x15%)
- Final Exam 65%

Problem Sets: Students will be assigned weekly problem sets after each lecture, which they will have to submit during their seminar the following week. In total, there will be 8 problem sets per term, out of which only two randomly selected assignments will count towards the final mark. The problem sets will be done on paper and have to be submitted at the corresponding seminars.

Midterm Exam: There will be one midterm exam per term. It will be one-hour closed book, closed notes exam (time and place will be announced in advance). It is your responsibility to arrive to the exam on time. Students who arrive late will not be given additional time, and anyone arriving after other students have finished will not be permitted to take the exam.

Failing to take a scheduled examination will result in a score of 0 unless replaced by a make-up exam in a timely fashion. ‘Make-up’ examinations are given at the discretion of the instructor, and will only be given in cases where there is a documented evidence of extenuating circumstances. No exam will be made-up after it has been graded and returned to the class.

Final Exam: The final exam will be a closed book, closed notes exam. It will cover the material presented in lectures and seminars and will test your knowledge and understanding of the material.
covered in the course, your ability to manipulate, compare, and logically explain diagrammatic and mathematical versions of the models, your ability to apply the models and theories to real world situations, and your ability to critically appraise the models and their applications.

Academic Integrity and Dishonesty: Cheating and plagiarism will not be tolerated.

Reading

The primary text will be:


Students should note that there are a number of good undergraduate textbooks that cover much of the material covered in this course, and many of these are available in the student library. Though you are not expected to consult these texts, they cover much of the same material and you may find them useful.

These texts are most commonly used in intermediate macroeconomics:

- Blanchard, O. *Macroeconomics*, 5th or earlier editions; Prentice Hall
- Mankiw, G. *Macroeconomics*, 7th or earlier editions. New York: Worth
- Williamson, S. *Macroeconomics*, 4th or earlier editions, Prentice Hall.

Excellent sources for economic news and analysis include such publications as The Economist, The Times, Daily Telegraph and Financial Times. The relevant weblinks are intuitive. In addition, there are a number of webpages and blogs maintained by leading macroeconomists, which you may find interesting:

http://gregmankiw.blogspot.com/
http://andolfatto.blogspot.com/
http://krugman.blogs.nytimes.com/
http://www.freakonomics.com/
http://economistsview.typepad.com/economistsview/
http://www.roubini.com/
http://bigpicture.typepad.com/
http://stumblingandmumbling.typepad.com/

Handouts: Students should note that NO handouts of lecture materials are provided. All lecture slides will be made available for download on the course webpage on Moodle prior to each lecture. Students should note that lecture slides are designed to support a lecture presentation. They are NOT lecture notes. Students are expected to attend lectures and, if they wish notes, make their own.

Tentative Schedule

Week numbers here correspond to university or departmental numbering. Therefore, week 2 here refers to the first week of teaching following the registration week. Reading weeks are week 7 in term 1 and week 6 in term 2.
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<td>Introduction</td>
<td>Key macroeconomic questions</td>
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<td>Key macroeconomic issues</td>
<td>Giavazzi&amp;Blanchard, Ch 1</td>
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<td>The short run</td>
<td>The goods market</td>
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<td>Aggregate demand and the Keynesian cross</td>
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<td>The financial market</td>
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<td>The concept of money, theory of liquidity preference</td>
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<td>The IS-LM model</td>
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<td>The IS-LM model, and the impact of fiscal and monetary policy in the short run</td>
<td>Giavazzi&amp;Blanchard, Ch 5</td>
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<td>Open economy</td>
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<td>The exchange rate and the interest rate parity condition. The modified IS-LM (Mundell-Fleming) model and policy. Fixed exchange rate regimes.</td>
<td>Giavazzi&amp;Blanchard, Ch 6, 7</td>
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<td>The medium run</td>
<td>The labour market</td>
<td>6,8, 10,11</td>
<td>Determination of employment and real wages in the labour market. Unemployment in Europe</td>
<td>Giavazzi&amp;Blanchard, Ch 8</td>
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<td>The AS-AD model</td>
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<td>Models of aggregate supply and the impact of fiscal and monetary policy in medium run.</td>
<td>Giavazzi&amp;Blanchard, Ch 9, 13 Mankiw, Ch 9, 13</td>
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<td>The medium run in an open economy</td>
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<td>Exchange rate crisis. Choosing between exchange rate regimes.</td>
<td>Giavazzi&amp;Blanchard, Ch 12</td>
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<td>The Phillips curve</td>
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<td>Short and long run Phillips curves. The sacrifice ratio.</td>
<td>Giavazzi&amp;Blanchard, Ch 10 Mankiw, Ch 9</td>
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<td>Disinflation</td>
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<td>Inflation, unemployment and output. Okun’s law.</td>
<td>Giavazzi&amp;Blanchard, Ch 11</td>
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<td><strong>Spring term</strong></td>
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<td>The long-run</td>
<td>Economic growth</td>
<td>1,2,3</td>
<td>The facts of growth. Solow model</td>
<td>Giavazzi&amp;Blanchard, Ch 13-15 Mankiw, Ch 4-5</td>
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<td>Expectations</td>
<td>Consumption</td>
<td>4,5,6</td>
<td>Theory of consumption.</td>
<td>Giavazzi&amp;Blanchard, Ch 16, 17</td>
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<tr>
<td>Expectations</td>
<td>Investment</td>
<td>7,8,9</td>
<td>Theory of investment.</td>
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<td>Review</td>
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