MACROECONOMICS
Elective course
for MA students

Syllabus

Lecturer: Andrei V. Dementiev

COURSE DESCRIPTION

Macroeconomics is a short crash course delivered in English for the first-year master students without profound knowledge in intermediate macroeconomics. The course introduces students to basic principles of aggregate output determination, and measurement of inflation and unemployment. It also familiarizes students with the AD-AS model in the context of a closed and an open mixed economy. Thus the course develops students' aggregate thinking and makes them ready to study macroeconomics at an advanced level.

PREREQUISITES

Students are required to have good command in calculus taught and are not expected to be familiar with economics.

COURSE OBJECTIVES

The purpose of the course is to develop the model-based way of 'aggregate thinking' and make students ready to study advanced macroeconomic. Specifically the course aims at:
❑ describing the main factors of aggregate demand fluctuations both in a closed and an open mixed economy;
❑ explaining the determinants of unemployment and inflation in the short run and in the long run;
❑ discussing the role of Central Bank in conducting monetary policy and how it affects financial markets;

INTENDED LEARNING OUTCOMES

Having completed the essential reading and learning activities, successful students are expected to be able to:
❑ define the main macroeconomic concepts like GDP, inflation, unemployment, balance of payments, monetary, fiscal, and exchange rate policy;
❑ describe the models and methods used in the macroeconomic analysis of the short-run fluctuations;
❑ explain and justify positive macroeconomic policy propositions both in written and oral communications and illustrate the relevance of the macroeconomic models.

METHODS OF INSTRUCTION

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. Lectures offer a verbal presentation of the material to be mastered. More importantly, they indicate the

relative importance of sub-topics and offer approaches to understanding the material that a reading of the notes or textbook sometimes leaves obscure. Those who cannot attend a lecture should endeavour to discuss its content with a fellow student who did attend and to borrow and copy notes..

❑ **Teachers' consultations.** Unresolved questions on the lecture material can be addressed with tutors on appointment during their consultation times (office hours).

❑ **Self-study.** The course is very intense and requires at least 4 hours of self-study a week.

❑ **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

Formative assessments
❑ Q&A - Questions and Answers
❑ Class participation

Summative assessments
❑ Quizzes
❑ Final exam

GRADE DETERMINATION

The final grade is determined by the final exam (80%) and in-class quizzes (20%).

MAIN READING

1. Blanchard, Oliver, Johnson Macroeconomics. 6th ediniton. Prentice Hall. 2010. [**B**] http://vig.prenhall.com/catalog/academic/product/0,1144,0131860267-SS,00.html or Blanchard O., Giavazzi F., Amighini A. Macroeconomics: A European Perspective. Financial Times Press, 2013, 2nd edition, Pearson Publishing. (Russian translation: О.Бланшар, Макроэкономика, Изд.дом ВШЭ, 2010)

SUPPLEMENTARY READING

2. Dornbusch R., Fischer S. and Startz R., Macroeconomics. 10th edition. McGraw-Hill, 2008. [**DFS**] http://highered.mcgraw-hill.com/sites/0072823402/information_center_view0/

3. Mankiw, N.G., Macroeconomics, 7ed. Worth Publishers. 2010. [**M**] (Russian translation: Н.Г.Мэнкью, Макроэкономика. Изд-во МГУ, 1994). http://bcs.worthpublishers.com/mankiw7/

LEARNING AIDS

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

❑ Lectures slides,

❑ Essential reading,

❑ Further reading,

❑ VLE environment resources.

Lecture slides, selected lecture notes and other learning aids will be regularly uploaded to the course page in the ICEF Information System http://icef-info.hse.ru/.

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 the VLE and the Online Library. You can access the VLE, the Online Library and your University of London email account via the Student Portal at: http://my.londoninternational.ac.uk

❑ Current year materials are regularly posted at the course web-page http://icef-info.hse.ru/

❑ 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. 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

❑ Companion Website for Blanchard's *Macroeconomics*, the basic textbook for the course, offers interactive Multiple Choice Questions, Essay Topics selected for each chapter of the textbook (27 in total) http://myphlip.pearsoncmg.com/cw/mpbookhome.cfm?vbookid=388

❑ This site can be used to graphically analyse and explore micro- and macroeconomic theories and concepts. The lessons are interactive and each topic presents subsidiary issues that may be analysed by the student and results are illustrated with a click. Simple Keynesian Cross Model, Consumption and Savings Functions, Goods Market Equilibrium, Supply and Demand for Money, as well as Simultaneous Equilibrium in IS-LM Model are presented on http://nova.umuc.edu/~black/pageg.html

❑ Wolfram demonstrations project, interactive diagrams (Keynesian cross, IS-LM, Solow Model)
http://demonstrations.wolfram.com/TheParadoxOfThriftInASimpleStockFlowConsistentModel/

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/

❑ The following tutorial is primarily intended to serve as a pathfinder through the tools part of Macroeconomics. Emphasising graphs and animations, it explains the essentials of macroeconomics, shows how the different building blocks are related, and offers interactive numerical exercises. http://www.fgn.unisg.ch/eurmacro/macroeconomics.html

1. Macroeconomic variables, definitions and identities.

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.

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.

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.
 📖 **(B Ch.1-2)**

2. Demand-determined economy. IS curve

The government sector. Budget surplus and government savings.

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.

The complete goods market and Keynesian Cross in the closed economy. 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.
 📖 **(B Ch.3)**

3. Money market. LM curve

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.
 📖 **(B Ch.4)**

4. General equilibrium and Demand management. Monetary policy

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.

Prices and output. Aggregate demand derivation using IS-LM framework.
   📖   **(B Ch.5)**

5. Aggregate supply and Phillips curve

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. Phillips curve. AD-AS model in the long run. Inflation in the long run.

Inflation in the short run. The links between the Phillips curve, Okun's law, and the SRAS relation. The costs and benefits of inflation. The quantity theory of money, and its long-run implications for monetary policy. The cost of disinflation policy. Rational expectations and Lucas critique.
   📖   **(B Ch.7-8)**

6. Open economy macroeconomics. BoP. Mundell-Fleming 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.

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.
   📖   **(B Ch.18-19)**