

MACROECONOMICS

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Course description

Financial analysts and traders do not make economic policy, but they have to understand it. In order to make investment decisions, one has to be aware of the global trends in regards to many variables, such as interest rates, exchange rates, inflation, and the like. They need to understand which ones of these variables are determined by the market and which ones by policy makers. And more importantly what the market and the central banks will decide to do? The goal of this course is to acquire understanding of such macroeconomic processes as economic growth, inflation, exchange rate movements and capital flows. We will then apply this understanding to the analysis of macroeconomic policy, especially the monetary policy. The course can be roughly divided into two parts. First, we will analyze the economy in the long and medium run, trying to understand what determines a country's Gross Domestic Product (GDP) and its growth rate. Likewise, we will analyze the equilibria and imbalances in the major markets, such as the money market, market for loanable funds and foreign exchange market. We will see how market forces bring about an economic equilibrium via adjustment of relative prices. Second, we will study deviations from this equilibrium caused by market imperfections such as sluggish price adjustment. These deviations cause economic fluctuations which force the governments or central banks to step in and try to stabilize the economy, bringing it back to the equilibrium. Hence, we will study how central banks make decisions about the monetary policy stance, namely, the target level of interest rates and exchange rates. We will find that the management of monetary policy is different in developed and developing countries. Finally, there will be three case studies in the course. Two cases are on South Korean growth (this one is related to Solow model), and Quantitative Easing approach (this one is related to monetary policy). The last one is devoted to Latvia and its hardships during the crisis of 2008-2009 (this one is all about financial crises). All cases will help you navigate through important questions of domestic growth policy, government and Central Bank interventions and serious economic problems leading to the prolonged decrease in business activities as in many European countries after 2009.

Grading

There will be three home assignments due after the lectures (see deadlines). They are planned for the third, fifth, and sixth lectures. Total grade is up to 30%. Seminars will be held before respective home assignments are due. We will also discuss three cases about macro policy questions. They will help you to go through the ideas of macro policy and could provide you up to 30% of the course grade (10% each). Write-ups are graded from 1 to 3 points, presence brings 3 points, and active participation may provide up to 4 points. Discussions are planned for the third (South Korea), sixth (Quantitative Easing) and seventh (Latvia) lectures. 40% of the grade will be determined by the final exam.

Course intended schedule and contents

| Class | Topic | Reading |
|-------|---|---------|
| 1 | <ul style="list-style-type: none">Introduction and national income accounting Mankiw, Ch. 1-3 ("The science of macroeconomics", "The data of macroeconomics", "National Income: Where it comes from and where it goes"). | |
| 2 | <ul style="list-style-type: none">Economic growth: the Solow model and beyond Mankiw, Ch. 7.1, 8.1-8.3 ("Economic growth I", "Economic growth II"). | |
| 3 | <ul style="list-style-type: none">(Home assignment 1). Money market and inationPrepare case: "Transforming Korea Inc." (remember to ll the template before the lecture) Mankiw, Ch. 4("Money and ination"). Mishkin and Eakins, Ch. 4. | |
| 4 | <ul style="list-style-type: none">The open economy: exchange rates, trade, and capital ows. AA-DD model Mankiw, Ch. 5 ("The open economy"). Saylor, Ch. 9 | |
| 5 | <ul style="list-style-type: none">(Home assignment 2). Economy in the short run (AA-DD): examples Saylor, Ch. 10 and 11Mankiw, Ch. 9 ("Introduction to economic uctuations". Chapters 10-12 "Aggregate demand I", "Aggregate demand II" and "Aggregate demand in the open economy" are useful but beyond the scope of this course) | |
| 6 | <ul style="list-style-type: none">(Home assignment 3). Macroeconomic policy in developed countries Prepare case: "Quantitative Easing in the Great Recession" (remember to ll the template before the lecture) Mankiw, Ch. 14 ("Stabilization Policy"). Mishkin and Eakins, Ch. 5,8 | |
| 7 | <ul style="list-style-type: none">Macroeconomic policy in developing countries. Ination stabilization and nancial crises Prepare case: "Latvia: Navigating the Strait of Messina" (remember to ll the template before the lecture) Mishkin and Eakins, Ch. 14 | |

Course materials

The primary textbook is Mankiw, N. Gregory, "Macroeconomics," Sixth edition, Worth Publishers, New York, 2006 Chapters on short-run will be adapted from

<http://www.saylor.org/site/textbooks/International%20Finance%20-%20Theory%20and%20Policy.pdf>

References will also be made to an already familiar text, Mishkin, Frederic S. and Eakins, Stanley G., "Financial markets and Institutions," Fifth edition, Pearson 2006. Additional reading, mostly from the press, will be made available by the during the course.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated