



Course title:	Macroeconomic Foundations of Economic Policy (Modern Challenges)
Department:	Department of Economics, Sociology and Philosophy
Course code:	F4-MEF
Erasmus subject code:	
Number of contact hours:	45
Course duration:	1 semester
ECTS credits:	6
Course description:	<p>The purpose of the course is to study basic macroeconomic models in order to explain various economic policy issues. Students are expected to be able to: (i) understand of the supply and demand law on goods and asset markets, (ii) recognize short-run and long-run determinants of the (a) interest rate and (b) nominal and real exchange rates, (iii) interpret a few standard policy issues, as (a) fiscal policy multipliers, (b) monetary transmission channels, (c) exchange rate effects, (d) labour market developments etc., (iv) recognize intertemporal mechanisms of economic policy, (v), understand basic microeconomic foundations behind macroeconomic relationships, (vi) explain current developments in the global economic environment (for example, global imbalances between the USA and surplus countries, supply-side policies in the USA and other countries, higher price volatility in commodity markets, the fiscal-monetary mix under extremely low interest rate and high public debt, effectiveness of fiscal stimuli and fiscal austerity measures, policies towards migration, outburst of populism in many countries etc.). Design of the course is prepared with the aim to cover the most important issues within several major fields of economic policy, utilizing mainstream modeling approaches. Main introductory topics cover growth and balance-of-payments (BOP) accounting, saving and consumption decisions in an open economy, and foreign trade imbalances. Basic explanations of the global imbalances (insufficient savings in the USA, savings glut and/or investment drought in the surplus countries, the Bretton-Woods II etc.) are discussed.</p> <p>Determinants of economic growth in the long run are studied by the neoclassical and endogenous models (Lucas and Romer models). The Solow model is considered in its both canonical and “green” versions. Theoretical framework of the New Economic Geography models is outlined, with explanation of agglomeration effects in industrial economies and China being provided. Policy implications of the overlapping generations model (OLG) are outlined. Then various issues of contemporary fiscal and monetary policy debate are discussed within the province of IS-LM-BP, AD-AS and Taylor-Romer models, as well as the dependent economy model, with advantages and risks of capital flows and international debt accumulation being analyzed. Modern versions of the Phillips curve are discussed in</p>



the context of contemporary monetary policy debates. Basic features of New Keynesian and New Classical models are explained, with a focus upon the concept of rational expectations. Several monetary models of exchange rate determination are considered. Stabilization policies are covered in connection to business cycle theories and unemployment problems. Fiscal and monetary policy rules are discussed. Special attention is given to a link between financial markets and business cycles.

Various aspects of international adjustment are explained in connection to different exchange rate regimes and balance-of-payments constraints. With a two-country extension of the IS-LM-BP model, policy spillovers and international policy coordination issues are explained. Mechanisms of the so-called Non-Keynesian effects in fiscal policy are considered in detail. Labor market policies are given attention within the context of international competition and migration flows. In this respect, several facets of educational policies are considered, as vertical and horizontal mismatches or job search strategies.

In the next part of the course, a brief overview of trade policies and industrial policies is provided, based on the latest developments within the US-China-EU trade triangle. Finally, a discussion of the role of government in a modern economy is supposed to help students to consolidate their knowledge of interdependent economic policy issues, with the lessons of the 2008 world economic crisis being expounded at length. Most important academic explanations of the Great Recession and Secular Stagnation are discussed, with a focus upon the likely effects of the zero-lower bound (ZLB) of interest rate and the so-called unconventional fiscal and monetary policies, with subsequent exit strategies being explained.

Literature:

Blanchard, O., Amilghini, A., Giavazzi, F. *Macroeconomics: A European Perspective*, Prentice Hall. 2010.

Begg, D., Fischer, S., and Dornbusch, R., *Economics*, 8th edition, McGraw-Hill Publ. Comp., 2008.

Handouts containing 60 to 70 slides are to be provided for every of 14 lectures. Selected articles from *The Economist* and Bloomberg websites.

Course type:

Assessment method:

Contact person:

Deadline for application:

Three quizzes and two mid-semester multiple choice tests

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