

# Intermediate Macroeconomics, EC2201

## Introduction

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  - Fredrik Paues (fredrik.paues@ne.su.se).
- Please respect that we are unable to answer analytical questions via email. Ask us during lectures/seminars or office hours.

# Lectures

- 10 lectures.
- Lecture notes downloadable in advance from the course web page (Mondo).

# Examination

- Written five-hour exam.
- Maximum number of points: 100 (90 for grade A, 75 for B, 60 for C, 50 for D and 45 for E).
- Exam will comprise short questions, longer analytical questions and an essay question.
- Credit from the seminar series will automatically yield 10 points on the exam.

# Seminars

- 5 seminars held by Mattias Almgren, Markus Kondziella and Fredrik Paues.
- Seminars voluntary but handing in satisfactory solutions to problem sets yields credit on the final exam.
- Work in groups of 3-4 people.
- Answers to seminar questions to be handed in group-wise to the seminar teachers no later than 10 am the (business) day before each seminar.
- Answers should be in English and compiled into a single document.
- Submit answers via email or in the designated mailbox on the 4th floor of the A-building.

# Literature

- Textbook: Jones, C.I. (2014), *Macroeconomics*, W.W. Norton, Latest Edition.
- Lecture notes.
- (Cursory) reading of articles and policy reports, specified in the lecture outline below, highly recommended.

# Contents

- Course will cover facts about economic aggregates and macroeconomic models.
- Continuous reference to historical and current macroeconomic phenomena.
- Global perspective as well as special focus on Sweden.

# Models and data

1. Why models?
2. Modelling principles.
3. Model elements and features:
  - Agents.
  - Agents' objectives.
  - Economic policy.
4. Data.

## Why models?

- Simplified versions of reality.
- Useful when describing important mechanisms.
- Once equilibrium is characterized we can conduct policy experiments.
- Different models serve different purposes (different horizons).
- Impossible to incorporate all features in one model: tractability.

## Modelling principles

- Exogenous variables: treated as given in the analysis.
- Endogenous variables: determined within the model.
- Model selection: variable of interest should be endogenously explained.
- Model solution: solve for endogenous variable as function of exogenous variables (if possible).
- Equilibrium: analyse how exogenous variables affect the endogenous variables.

# Models I: Agents

- Models should be based on the behaviour of individual agents: households and firms.
  - Microfoundations as opposed to ad hoc relationships.
- Other agents and institutions:
  - Financial institutions.
  - Trade unions.
  - Vested interest groups (political lobbies).
  - Other coalitions (cartels etc).
- Open economies: ROW = Rest of the World.

## Models II: Agents' objectives

- Agents have objectives: households maximize utility, firms maximize profits etc.
- Behaviour at individual level  $\implies$  aggregate relationships (supply and demand).
- Solve for equilibrium.

## Models III: Economic policy

- Economic policy: government may try to influence the general equilibrium by affecting the incentives of individual agents.
- The Lucas critique: microfoundations needed.
- Government: fiscal authority + central bank.
- Fiscal policy: taxes, subsidies, transfers, government consumption.
- Monetary policy: interest rates, money supply, exchange rates.

## 4. Data

- Data and econometric techniques used for:
  - Descriptive analysis.
  - Causal analysis (requires exogenous variation).
- Macro data available from the OECD, IMF, World Bank, Eurostat, central banks, Statistics Sweden and numerous other data producers.
- Some of the problem sets will include simple empirical exercises (no previous knowledge of statistics or econometrics required).

# Lecture outline

## L1. Economic growth I

Contents: Growth facts. Production.

Literature: Jones (2014), Ch. 3-4. Klein (2016a). Durlauf et al. (2005).

## L2. Economic growth II

Contents: The Solow model. Human capital. The Romer model. Institutions and growth.

Literature: Jones (2014), Ch. 5-6. Klein (2016a). Acemoglu et al. (2005). Mankiw et al. (1992). Seim and Parente (2013).

## Lecture outline cont'd.

### L3. **The labour market**

Contents: Labour market facts and developments. Labour supply and demand. Wage rigidity. The bathtub model of unemployment. Search and matching.

Literature: Jones (2014), Ch. 7. Pissarides (2000), Ch. 1. Swedish Fiscal Policy Council (2011, Ch. 6; 2016, Ch. 1.3).

### L4. **National income in the open economy**

Contents: National income in the open economy. The current account. Global imbalances.

Literature: Jones (2014), Ch. 19. Klein (2016b).

## Lecture outline cont'd.

### L5. Exchange rates

Contents: Exchange rates over different horizons. Overshooting. Exchange rate regimes.

Literature: Jones (2014), Ch. 20. Klein (2016c). Dornbusch (1976).

### L6. Inflation and monetary policy

Contents: The monetary system. Inflation. The Phillips curve. Time inconsistency. Inflation targeting. Quantitative Easing.

Literature: Jones (2014), Ch. 8, 12, 13, 14. Klein (2016d).

## Lecture outline cont'd.

### L7. **Government debt and sustainable fiscal policy**

Contents: The government budget constraint. Ricardian equivalence. Fiscal sustainability. Government debt dynamics.

Literature: Jones (2014), Ch. 18. Barro (1974). Swedish Fiscal Policy Council (2010, Ch. 2, 4; 2016, Ch. 4).

### L8. **Some microfoundations**

Contents: Consumption. Labour supply.

Literature: Jones (2014), Appendix 15.7, Ch. 16. Klein (2016e). Prescott (2004).

## Lecture outline cont'd.

### L9. **Business cycles**

Contents: Business cycles. An introduction to DSGE models.

Literature: Jones (2014), Ch. 9, 15. Klein (2016f). Plosser (1989).

### L10. **Recent economic crises**

Contents: The Great Recession. An introduction to the Eurozone crisis.

Literature: Jones (2014), Ch. 10, 14. Krishnamurti (2010).  
Baldwin and Giavazzi (2015).

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Klein, P. (2016c), Lecture Notes on Exchange Rates, downloadable from:  
<http://paulklein.ca/newsite/teaching/2201notes816.pdf>.

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