Macroeconomics II

Course description

This course gives a rigorous overview of modern macroeconomic analysis and theory at an intermediate level. We start with a presentation of the main methodological approach and tools used in contemporaneous macroeconomic analysis. We next describe the mechanics of economic growth and make a detailed exposition of a basic neoclassical growth model, followed by an overview of endogenous growth theories. The analysis of macroeconomic fluctuations starts by a discussion of stylized facts and microeconomic optimization processes underlying a modern business cycle model. We next discuss the role of money and monetary policy, exposing the role of imperfect nominal adjustments. A departure from the baseline frictionless model is made to highlight the role of financial factors. The rest of the course covers a selection of other topics in macroeconomics, like open economy issues and unemployment theories.

The main line of the course will be presented in form of a lecture, complemented by a more detailed discussion and exercises for a subset of topics. The major textbook for this course is Williamson (2010). However, the presentation of some of the topics might somewhat differ in focus and exposition. Therefore, attending the lecture and tutorials is very important if one wants to prepare well for the final exam. Individual studying of additional book chapters and journal articles given in the course outline below is not required, but encouraged. Occasionally there will be written homework in form of problems and exercises, facilitating comprehension and acquiring practical skills.

The aim of this course is to give the students an overview of the most important concepts, models and tools used in contemporary macroeconomic analysis. Having finished the course, the participants are expected to: understand the basic mechanisms of economic growth, including the role of capital and knowledge accumulation; be able to discuss how optimization processes performed at a micro level translate into general equilibrium outcomes and how they are affected by macroeconomic shocks; have a good understanding of the role of price stickiness for economic fluctuations and the monetary policy conduct; understand how frictions in the financial and labour markets affect macroeconomic outcomes.

Prerequisites

The level of mathematics used during the course includes basic differential calculus and optimization. The participants are also expected to have command of the principles in micro- and macroeconomics, at the level covered during the first-year courses.

Evaluation

The main component of the final grade is the final written exam, consisting of simple theoretical questions and more complex problems to analyze. Unless stated otherwise by the instructor, the final exam will cover only the material presented during the lectures and given as homework. The approximate weight of the final exam is 70%. The remaining 30% will be determined by the assignments given during the course (homework). The thus obtained grade may be subject to an upward correction, based on the overall activity during the lectures and tutorials.

Attendance is not mandatory (though encouraged), and hence does not affect the final grade. Deadlines for the assignments are sharp: homework handed in after deadline will not be evaluated. Discussing assignment problems with fellow students is permitted and actually encouraged as it can prove very useful. However, each student is required to write the assignment alone, not using work of others as if it is his or her own.
Misconduct will be reported to the dean. The same applies to cheating during the exam or any other forms of academic misconduct.

**Course outline and reading list**

NOTE: 'Reading’ includes the main sources used during the course. In general, items from 'Additional reading’ will not be covered during the course, but are aimed to serve as suggestions for students willing to broaden their knowledge and understanding of some of the topics. To the best of my knowledge, there are no free (and legal) online versions of the textbooks. Most of the journal articles can be found in the JSTOR database, available at the Warsaw School of Economics. All working papers are downloadable from the web.

1. Introduction to micro-founded economic analysis; Major issues in macroeconomics; Measurement
   Reading: Williamson (2010, ch. 1 and 2)

2. Economic growth: stylized facts
   Reading: Williamson (2010, ch. 6)
   Additional reading: Acemoglu (2008, ch. 1)

3. The Solow growth model; Growth accounting
   Reading: Williamson (2010, ch. 6)
   Additional reading: Romer (2005, ch. 1); Acemoglu (2008, ch. 2 and 3)

3. Extensions to the Solow growth model
   Reading: Williamson (2010, ch. 7), Mankiw et al. (1992)
   Additional reading: Acemoglu (2008, ch. 8)

4. Introduction to endogenous growth
   Reading: Williamson (2010, ch. 7)
   Additional reading: Romer (1994)

5. Business cycles: stylized facts
   Reading: Williamson (2010, ch. 3)
   Additional reading: Romer (2005, ch. 4.1), King and Rebelo (2000, ch. 2)

6. A one-period model: intratemporal optimization
   Reading: Williamson (2010, ch. 4 and 5)

7. A real two-period model: intertemporal optimization
   Reading: Williamson (2010, ch. 8 and 10)

8. Money and prices; Monetary policy with flexible prices
   Reading: Williamson (2010, ch. 11 and beginning of 16)
   Additional reading: Williamson (2010, rest of ch. 16)

9. Sticky prices; The AS-AD model; Monetary policy with sticky prices
   Reading: Benigno (2009), Williamson (2010, ch. 18)
   Additional reading: Williamson (2010, ch. 13)

10. Credit frictions
    Reading: Williamson (2010, ch. 9)

11. Open economy issues
    Reading: Williamson (2010, ch. 14 and 15)
    Additional reading: Krugman and Obstfeld (2006)

12. Unemployment
    Reading: Williamson (2010, ch. 16)
References


