**International Economics**

Academic year 2023-2024

**Macroeconomics A**

**EI056 - Autumn - 6 ECTS**

Tuesday 10h15 - 12h00

**Course Description**

The class is the first half of the macroeconomics sequence. It covers the major issues in macroeconomics. In addition to developing the economic intuition, it covers the the workings of major macroeconomic models that students will need in their research.

After presenting the main topics of macroeconomics, we consider simple model of short terms fluctuations. While these rely on ad-hoc foundations, they still allow us to illustrate several important concepts.

We then turn to frameworks that explicitly take account of the dynamics of the economy, these general equilibrium optimizing models being the core of macroeconomics. Starting with long-term growth, we gradually enrich the approach to include intertemporal decisions, labor supply and business cycles, and monetary policy.

The final part of the course covers financial markets and the banking sector, as well as labor market issues.

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Syllabus

Organisation of the classes

Conducting research in macroeconomics requires a familiarity with technical tools. The course therefore is structured to provide both economic intuition and the workings of the models. Shortly before the day of each class, we’ll make the slides available on moodle, along with a question to think about. The class will start with a discussion of the question, before going through the slides. Having the slides in advance llows you to focus your attention on understanding the concepts covered.

In addition to the slides, the moodle page will provide a technical note with the detailed steps of the most technical sections. This is not mandatory material, but instead is available to help you go in depth in the workings of the models if you want. The moodle page also includes two weekly quizzes. The first is on economic intuition, and the second is a serie of short technical exercises. These are not graded, but intended to allow you to get a self-evaluation of your understanding. Solutions will be provided before the following class.

Weekly review sessions with the teaching assistant will cover the class materials in more details.

Evaluation

The final grade for the course is calculated on the basis of a mid-term exam (35%), a final exam (35%) and two problem sets (15% each). Problem sets are aimed at getting students to use the tools developed in class, while the exams focus more on economic intuition.

Readings

Readings with a (\*) are mandatory and are on the class Moodle page. The remaining material is optional.

The course will rely on 3 textbooks:

Michael Burda and Charles Wyplosz, *Macroeconomics: A European Text*. 6th edition.

This book provides a non-technical approach of the points covered in the course. I recommend reading the sections of this book first, before going to the more technical textbooks.

David Romer, *Advanced Macroeconomics*, 4th edition.

This book covers the issues in a more technical way.

Carl Walsh, *Monetary Theory and Policy*, 3rd edition.

The book is focused on issues of money and monetary policy, covering them in a technical way.

In readings from Romer and Walsh, focus on the intuition and the arguments as opposed to figuring out all the technical details.

**1. Introduction to macroeconomics: patterns and the evolution of thought**

Class 1

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 1, 2 (2.1 to 2.3), and 20 (20.1 to 20.5).

\* Chugh *Modern Macroeconomics*, 1st edition

Chapter 10.

Akerlof, Goerge (2019), “What They Were Thinking Then: The Consequences for Macroeconomics during the Past 60 Years”, Journal of Economic Perspectives 33(4), pages 171-186.

<https://www.aeaweb.org/articles?id=10.1257/jep.33.4.171>

Mankiw, Gregory (2006), “The Macroeconomist as a Scientist and Engineer,” NBER Working Paper, No 12349.

<http://www.nber.org/papers/w12349.pdf>

Woodford, Michael (1999). “Revolution and Evolution in Twentieth-Century Macroeconomics”.

<http://www.columbia.edu/%7Emw2230/macro20C.pdf>

**2. Simple (non-optimizing) macroeconomics frameworks**

***2.1 The IS-LM and AS-AD framework***

Class 2

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 10, 12, and 13 (13.1 to 13.2 plus 13.4)

Note: the book considers the case of open economies, while the class considers a closed economy (as open economies are covered in the spring 2023 course).

Hazell Jonathon, Juan Herreño, Emi Nakamura, and Jón Steinsson (2021), “The Slope of the Phillips Curve: Evidence from US States”, NBER Working Paper 28005

<http://www.nber.org/papers/w28005>

***2.2 Policy in the simple frameworks: time consistency, rules, and operating procedures of economic policy***

Class 3

The first problem set will be given in that class.

\* Walsh, *Monetary Theory and Policy*

Chapters 6 (6.1 to 6.2.1), 7 (7.1 to 7.2, 7.3.2, and 7.3.4 to 7.3.5), and 11 (11.1 to 11.3).

Bodea, Cristina, and Raymond Hicks (2015), “Price Stability and Central Bank Independence: Discipline, Credibility, and Democratic Institutions,” *International Organization* 69 (1), pp. 35-61

<https://www.jstor.org/stable/43283290>

Dincer, Nergiz, Barry Eichengreen, and Petra Geraats(2022), “Trends in Monetary Policy Transparency: Further Updates”, *International Journal of Central Banking* 72, pp. 331-348

<https://www.ijcb.org/journal/ijcb22q1a8.pdf>

**3 Dynamic optimizing models**

***3.1 Long run growth***

Class 4

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 3, 4, and 20.9.

Romer *Advanced Macroeconomics*

Chapters 1 (1.1 to 1.7).

Aghion, Philippe, and Peter Howitt (2006). “Appropriate Growth Policies: A Unifying Framework” *Journal of the European Economic Association* 4, pp. 269-314.

<https://dash.harvard.edu/bitstream/handle/1/4554121/aghion_appropriategrowth.pdf?sequence=2>

IMF (2022). “Near-Term Macroeconomic Impact of Decarbonization Policies”, *World Economic Outlook* chapter 3, October.

<https://www.imf.org/-/media/Files/Publications/WEO/2022/October/English/ch3.ashx>

Jones, Charles (2022). “The End of Economic Growth? Unintended Consequences of a Declining Population” *American Economic Review* 112 (11), pp. 3489-3527.

<https://www.aeaweb.org/articles/pdf/doi/10.1257/aer.20201605>

***3.2 Introducing intertemporal choice: the Ramsey model***

Class 5

The first problem set will be due in that class.

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 7 (7.1 to 7.5), and 8.

\* Romer *Advanced Macroeconomics*

Chapters 2 (2.1 to 2.6), and 9 (9.1 to 9.4).

***3.3 Introducing fluctuations and labor supply: The real business cycles model***

Class 6

\* Romer *Advanced Macroeconomics*

Chapters 5 (5.1 to 5.4, 5.6 to 5.8).

\* Christiano, Lawrence, Martin Eichenbaum, and Mathias Trabandt (2018). “On DSGE Models”, *Journal of Economic Perspectives* 32 (3), pp. 113-140.

<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.113>

\* Kehoe, Patrick, Virgiliu Midrigan, and Elena Pastorino (2018). “Evolution of Modern Business Cycle Models: Accounting for the Great Recession”, *Journal of Economic Perspectives* 32 (3), pp. 141-166.

<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.141>

Rebelo, Sergio (2005). “Real Business Cycles Models: Past, Present, and Future”, NBER working paper 11401.

<http://www.nber.org/papers/w11401.pdf>

***3.4 Introducing sticky prices and monetary policy: the New Keynesian model***

Class 7

\* Walsh, *Monetary Theory and Policy*

Chapters 1, 8 (8.1 to 8.4.4).

Romer *Advanced Macroeconomics*

Chapters 7 (7.1 to 7.2, 7.8 to 7.9).

Erceg, Christopher, Zoltan Jakab, and Jesper Lindé, (2021), "Monetary policy strategies for the European Central Bank," *Journal of Economic Dynamics and Control* 132(C).

<https://www.sciencedirect.com/science/article/pii/S0165188921001469>

Gabaix, Xavier (2020). “A behavioral New Keynesian Model”, *American Economic Review* 110 (8), pp. 2271-2327.

<https://www.aeaweb.org/articles?id=10.1257/aer.20162005>

\* Gali, Jordi (2018). “The State of New Keynesian Economics: A Partial Assessment”, *Journal of Economic Perspectives* 32 (3), pp. 87-112.

<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.87>

Gürkaynak, Refet, and Cédric Tille (2017). “DSGE Models in the Conduct of Policy: Use as intended”, Voxeu Ebook.

<https://voxeu.org/content/dsge-models-conduct-policy-use-intended>

\* Romer, Christina, and David Romer (2023). “Presidential Address: Does Monetary Policy Matter? The Narrative Approach after 35 Years”, *American Economic Review* 113 (6), pp. 1395-1423.

<https://www.aeaweb.org/articles?id=10.1257/aer.113.6.1395>

**4 Beyond representative agents: the overlapping generations model**

Class 8

The second problem set will be given in that class.

\* Romer *Advanced Macroeconomics*

Chapters 2 (2.8 to 2.12).

Acharya, Sushant, Edouard Challe and Keshav Dogra (2023). “Optimal Monetary Policy According to HANK”, *American Economic Review* 113(7).

<https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20200239>

Kaplan, Greg, and Giovanni Violante (2018). “Microeconomic Heterogeneity and Macroeconomic Shocks”, *Journal of Economic Perspectives* 32 (3), pp. 167-194.

<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.167>

\* Weil, Philippe (2008). “The Overlapping Generations: The First Jubilee”, *Journal of Economic Perspectives*, pp. 115-134.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.22.4.115>

**5 Fiscal policy and government debt**

Class 9

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 7 (7.5), and 17.

\* Romer *Advanced Macroeconomics*

Chapters 12.

Alesina, Alberto, Carlo Favero, et Francesco Giavazzi (2019). “Effects of austerity: expenditures- and tax-based approaches”, *Journal of Economic Perspectives* 33(2), pages 141-162.

<https://www.aeaweb.org/articles?id=10.1257/jep.33.2.141>

Autor, David, David Cho, Leland Crane, Mita Goldar, Byron Lutz, Joshua Montes, William B. Peterman, David Ratner, Daniel Villar, and Ahu Yildirmaz (*2022),* "The $800 Billion Paycheck Protection Program: Where Did the Money Go and Why Did It Go There?" *Journal of Economic Perspectives*, 36 (2): 55-80.

<https://www.aeaweb.org/articles?id=10.1257/jep.36.2.55>

\* Blanchard, Olivier (2019). “Public debt and low interest rates”, *American Economic Review* 109 (4), pages 1197-1229.

<https://www.aeaweb.org/articles?id=10.1257/aer.109.4.1197>

<https://piie.com/commentary/speeches-papers/public-debt-and-low-interest-rates>

Cohen-Setton, Jérémie, Egor Gornostay, and Colombe Ladreit (2019). “Aggregate Effects of Budget Stimulus : Evidence from the Large Fiscal Expansions Database”, Peterson Institute for International Economics Working Paper 19-12.

<https://www.piie.com/publications/working-papers/aggregate-effects-budget-stimulus-evidence-large-fiscal-expansions>

Górnicka, Lucyna, Christophe Kamps, Gerrit Koester, Nadine Leiner-Killinger (2020), “Learning about fiscal multipliers during the European sovereign debt crisis: evidence from a quasi-natural experiment”, Economic Policy, Volume 35(101), pp–40

<https://academic.oup.com/economicpolicy/article/35/101/5/5841212>

\* IMF (2023). “Coming Down to Earth: How to Tackle Soaring Public Debt”, *World Economic Outlook* *chapter 3*, April.

<https://www.imf.org/-/media/Files/Publications/WEO/2023/April/English/ch3.ashx>

Ramey, Valerie (2019). “Ten years after the financial crisis: what have we learned from the renaissance in fiscal research?”, *Journal of Economic Perspectives* 33(2), pages 89-114.

<https://www.aeaweb.org/articles?id=10.1257/jep.33.2.89>

\* Reis, Ricardo (2022). “Debt revenue and the sustainability of public debt”, *Journal of Economic Perspectives* 36(4), pages 103-124.

<https://www.aeaweb.org/articles?id=10.1257/jep.36.4.103>

**6 Money and the financial sector**

***6.1 Money, inflation, and financial markets***

Class 10

The second problem set will be due in that class.

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 6 (6.1 to 6.2 included), 9 (9.1 to 9.3 included), and 14.

\* Walsh, *Monetary Theory and Policy*

Chapters 10 (10.1-10.3).

Greenwood, Robin and David Scharfstein (2013). “The Growth of Finance”, *Journal of Economic Perspectives*, 27, 3-28.

<https://www.aeaweb.org/articles?id=10.1257/jep.27.2.3>

IMF (2022). “Wage Dynamics Post–COVID-19 and Wage-Price Spiral Risks”, *World Economic Outlook* chapter 2, October.

<https://www.imf.org/-/media/Files/Publications/WEO/2022/October/English/ch2.ashx>

\* IMF (2021), “Inflation Scares”, *World Economic Outlook chapter 2*, October

<https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

***6.2 The banking sector and the financial accelerator***

Class 11

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 9 (9.5).

\* Walsh, *Monetary Theory and Policy*

Chapters 10 (10.4-10.7).

Bernanke, Ben, and Mark Gertler (1995). "Inside the Black Box: The Credit Channel of Monetary Policy Transmission" *Journal of Economic Perspectives*, 9, 27-48.

<https://www.aeaweb.org/atypon.php?doi=10.1257/jep.9.4.27>

\* Diamond, Douglas, and Philip Dybvig (1983). “Bank Runs, Deposit Insurance and Liquidity”, *Journal of Political Economy*, pp 401-19

<https://www.jstor.org/stable/pdf/1837095.pdf?refreqid=excelsior%3Ab3e76e5c88f96d72c54a68f479738216>

Gertler, Mark, and Simon Gilchrist (2018). “What Happened: Financial Factors in the Great Recession”, *Journal of Economic Perspectives* 32 (3), pp. 3-30.

<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.3>

Gertler, Mark, Nobuhiro Kiyotaki, and Andrea Prestipino (2017), “A Macroeconomic Model with Financial Panics”, NBER working paper 24126.

<http://www.nber.org/papers/w24126>

Mian, Atif, and Amir Sufi (2018). “Finance and Business Cycles: The Credit-Driven Household Demand Channel”, *Journal of Economic Perspectives* 32 (3), pp. 31-58.

<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.87>

**7 Labor market and unemployment**

Class 12

\* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 5.

\* Romer *Advanced Macroeconomics*

Chapters 10 (10.1 to 10.4).

Blanchard,Olivier, *The Economics of Unemployment. Shocks, Institutions, and Interactions*., mimeo.

<http://econ-www.mit.edu/files/708>

Daly, Mary, Bart Hobijn, Ayşegül Şahin and Robert G. Valletta (2012). "A Search and Matching Approach to Labor Markets: Did the Natural Rate of Unemployment Rise?," Journal of Economic Perspectives, 3-26.

<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.3>

IMF (2022). “A Greener Labor Market: Employment, Policies, and Economic Transformation”, *World Economic Outlook* chapter 3, April.

<https://www.imf.org/-/media/Files/Publications/WEO/2022/April/English/ch3.ashx>

Giupponi, Giulia, Camille Landais, and Alice Lapeyre (*2022),* "Should We Insure Workers or Jobs during Recessions?" *Journal of Economic Perspectives*, 36 (2): 29-54.

<https://www.aeaweb.org/articles?id=10.1257/jep.36.2.29>