

Course Outline

2017

ECON 311: MACROECONOMIC THEORY AND POLICY (15 POINTS)

Semester 2 (1175)

Course Prescription

This course is designed to teach students modern macroeconomic analysis and focuses on the standard dynamic general equilibrium models, which are central to current macroeconomic research. The course provides a rigorous analysis of macroeconomic theory, building a modern macroeconomic modelling framework with emphasis on the role of monetary policy, fiscal policy and open economy influences on economic outcomes.

Programme and Course Advice

Prerequisite: ECON 211 Macroeconomics

Successful completion of this course will help students to advance to ECON 711 Macroeconomics and ECON 713 Monetary Economics, or to pursue postgraduate studies in advanced macro and monetary economics at any leading institution, and to become a successful macroeconomic policy analyst.

Goals of the Course

The course will provide a base of understanding for students who are interested in conducting macroeconomic research or postgraduate study in macroeconomics. This course will also enable students to read and understand some of the frontier macroeconomic research currently being published in top academic journals.

Learning Outcomes

By the end of this course it is expected that the student will be able to:

1. apply general equilibrium framework to understand different macroeconomic issues such as long run growth, fluctuations, employment, and inflation.
2. use numerical examples of these economies to conduct experiments, including different government policy scenarios.
3. analyse macroeconomic problems and identify possible solutions.
4. conduct their own macroeconomic research, using modern modelling techniques.

Content Outline

- Topic 0: Introduction.**
- Topic 1: The Demand Side**
Aggregate demand and business cycles; IS curve and multipliers; Forward looking consumers and the consumption Euler equation; The permanent income hypothesis
- Topic 2: The Supply Side**
Efficiency wage setting and frictional labor markets; Supply side effects on unemployment; Philips curve and expectations; Nominal rigidities, inflation and the business cycle
- Topic 3: The 3-equation Model and Macroeconomic Policy**
The central banks and monetary policy; Dynamic adjustment of the economy to permanent and transitory shocks; Impulse response functions; ZLB on nominal interest rates; The deflation trap
- Topic 4: Expectations**
Risk and uncertainty; The rational expectations hypothesis; Expectations, inflation and the Phillips curves; Expectations in the 3-equation model; Central bank communications and inflation expectations; The Lucas critique; The inflation bias; Time inconsistency
- Topic 5: Money, Banking and the Macro economy**
Money and the macro-economy; Banks, credit constraints and collateral; Fractional reserve system; The financial system and balance sheets; Banks and macro stabilization.
- Topic 6: The Financial Sector and Crises**
Financial cycles and business cycles; Financial crises; Asset price bubbles and financial accelerator; The housing feedback process and the 3-equation model; The bank leverage-centered feedback process
- Topic 7: The 3-equation Model in the Open Economy**
The foreign exchange market and uncovered interest parity; Medium-run equilibrium in the open economy; Stabilization under flexible exchange rates; Dynamic adjustment to the shocks; Dornbusch overshooting
- Topic 8: The Open Economy: The Demand and Supply sides**
The demand side and trade balance; Purchasing power parity; Marshall-Lerner condition; Real exchange rate and trade balance; Demand, supply and external trade shocks in the open economy
- Topic 9: Extending the Open Economy Model: Oil Shocks and Imbalances**
Commodity prices and the macro-economy; Adjustment to an oil shock in an open economy model; Current account imbalances; A 2-block model with inflation targeting central banks

Learning and Teaching

This course will be taught in the second semester and will have three hours of lectures and a one hour tutorial each week. Tutorials will begin in the second week of the semester. The times for the lectures are Thursday 4.00pm to 6.00pm and Friday 4pm to 6pm. Tutorials led by a graduate teaching assistant will be held on Mondays (3-4pm), Wednesdays (2-3pm) and Fridays (11am-12pm).

Lecture slides will be posted on CANVAS along with all other course material including tutorial material and sample questions. Students will be introduced to a range of general background readings together with more specific material for individual topics within each lecture. Texts and set readings will be available from the University's Short Loan Desk and electronic access to most readings will be available on the ECON 311 course Library website. An electronic file of the most up-to-date recommended articles will also be made available in the CANVAS system to those enrolled in the course.

Teaching Staff

Dr. Alexandre Dmitriev

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Learning Resources

Prescribed textbook: (available in the Library Short Loan Collection)

- Carlin. W. and D. Soskice, *Macroeconomics: Institutions, Instability and the Financial System*, 2014, Oxford University Press

The following texts are useful supplements for some parts of the course:

1. Andolfatto, D., *Macroeconomic Theory and Policy*, 2005, 2nd edition, free download available at <http://econpapers.repec.org/paper/wpawuwpma/0510005.htm>
2. Williamson, S. D., *Macroeconomics*, 2014, 5th edition, Prentice Hall

Assessment

60% on the Final Exam and 40% on Coursework, the latter to consist of two (2) Assignments worth 15% overall and one Test worth 25%. More details will be provided at lectures and on CANVAS.

Plussage does not apply.

Learning Outcome	Assignments 1 and 2	Test	Final Examination
1	X	X	X
2	X	X	X
3	X	X	X
4	X	X	X

CHEATING AND PLAGIARISM

The University of Auckland regards cheating as a serious academic offence.

Plagiarism is a form of cheating. In coursework assignments submitted for marking, plagiarism can occur if you use the work and ideas of others without explicit acknowledgment. Work can be plagiarized from many sources, including books, journal articles, the internet, and other students' assignments. A student's assessed work may be reviewed against electronic source material using computerized detection mechanisms. Upon reasonable request, students may be required to provide an electronic version of their work for computerized review.

The way of avoiding plagiarism is to reference your work properly. If you are in doubt about how to reference properly, ask someone – your lecturers, tutors and the Student Learning Centre are good places to start. Please refer to the following website for further information about academic referencing: www.cite.auckland.ac.nz/

The document *Guidelines: Conduct of Coursework* provides further advice on how to avoid plagiarism. It can be found at: <https://policies.auckland.ac.nz/policies/Policy-display-register/guidelines-for-the-conduct-of-coursework.pdf>

The penalties for plagiarism can be severe, including losing some or all of the marks for the assignment. Major offences can be sent to the University's Discipline Committee, where further penalties can be imposed.

THIRD PARTY ASSISTANCE WITH COURSEWORK

While you are encouraged to improve your coursework writing skills and are permitted to seek assistance from third parties you are advised that there are important limits on the amount and type of assistance that can be given to you in completing your assignments, including group work. Third parties include fellow students, reading groups, friends, parents, SLC tutors, and paid-for professional editing services.

There is a set of guidelines which clearly indicates the type of advice and assistance that can be given. If you are seeking the assistance of any third party you are required to give a copy of the guidelines to the person prior to them helping or assisting you.

You are also required to only seek and accept help using a printed version of your work, not an electronic version. You must keep a copy of this printed version and produce it if required.

A copy of the guidelines is available at: www.business.auckland.ac.nz/thirdpartyassistance

HELP WITH ACADEMIC REFERENCING

Acknowledgement of sources is an important aspect of academic writing. The University's Referen@ite website www.cite.auckland.ac.nz provides students with a one-stop online resource for academic referencing needs. Referen@ite explains the essentials of referencing and how to avoid plagiarism. It also includes practical tools to help students reference correctly, use references effectively in writing, and gives fast access to some major reference formats with examples.

INCLUSIVE LEARNING

Students are urged to discuss privately any impairment-related requirements face-to-face and/or in written form with the course convenor/lecturer and/or tutor.

STUDENT FEEDBACK

Student feedback is encouraged in this course. During the semester, students may directly submit their feedback to the lecturer through a face-to-face appointment, or they may wish to submit feedback through the class representative.

Class representatives

At the beginning of each semester, you will elect a class representative for the paper^[1]. The role of the class representative is to gather feedback from students in the course and bring this to the lecturer and/or the Department. Class representatives' email addresses are posted on CANVAS and you are encouraged to contact them with feedback relating to the course. You are also welcome to talk to the class representatives in person.

Staff-Student Consultative Committee

^[1] An election will not take place if the number of applicants for the class representative positions equals the number of positions available.

Class representatives also submit feedback to the Department of Economics Staff Student Consultative Committee (SSCC), which meets up to three times per semester to gain feedback regarding the course. Only class representatives may attend the SSCC meetings, and they will ask the class for feedback before the SSCC meeting.

Course and teaching evaluations

At the end of the semester, you will have the opportunity to submit an evaluation of the course in a formative feedback questionnaire.