



# Advanced Macroeconomics

## Introduction

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AY 2024-25, Semester I

## Plan for this semester

1. Long-term economic growth (weeks 1-5)
2. Short-run fluctuations (weeks 6-8)
3. Key markets in the economy (weeks 9-10)

## Plan for today

1. Basic macroeconomic facts.
2. Brief historical overview on macroeconomic theory.
3. Main logistics of the module.
4. The Harrod-Domar growth model

## Laptop and phone ban

# Laptop ban

The use of laptops, tablets, smartphones and similar devices is banned in this class

Research shows that the use of laptops in class harms learning and reduces students' grades.

SCIENTIFIC AMERICAN

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### A Learning Secret: Don't Take Notes with a Laptop

Students who used longhand remembered more and had a deeper understanding of the material

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ANNUAL OF TECHNOLOGY

### THE CASE FOR BANNING LAPTOPS IN THE CLASSROOM

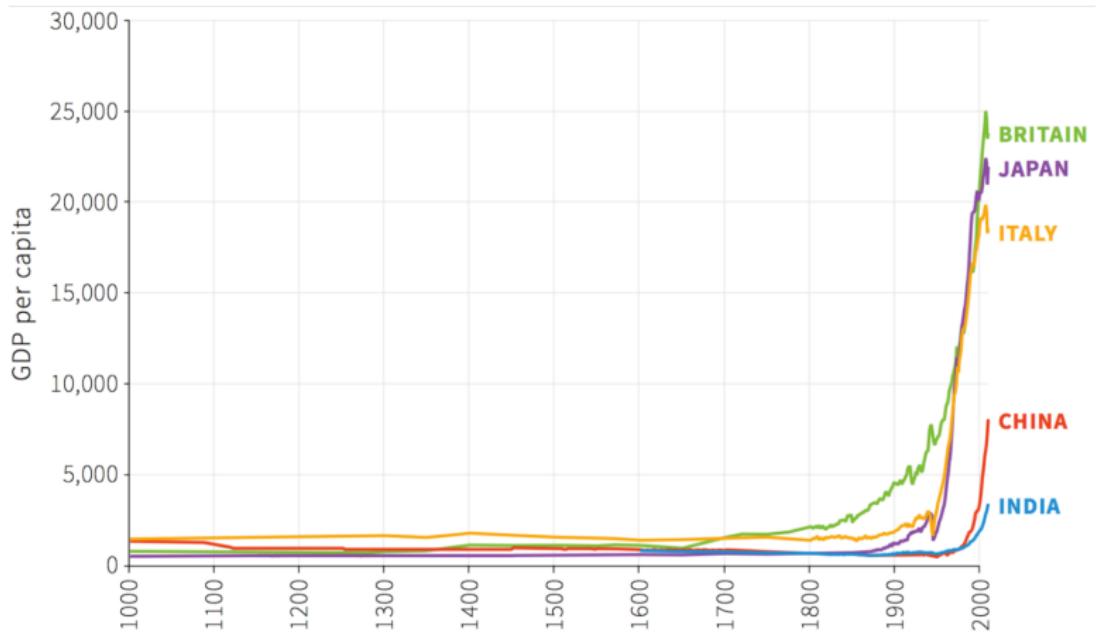
By Dan Rockmore June 8, 2014

The New York Times

ECONOMIC VIEW

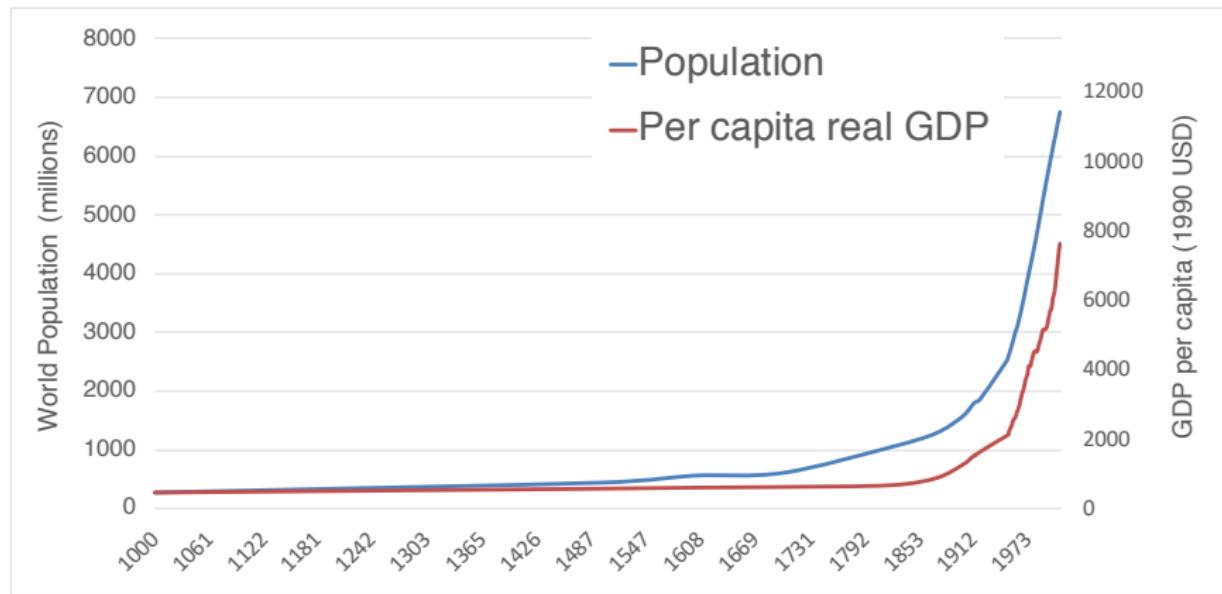
### Laptops Are Great. But Not During a Lecture or a Meeting.

# History's hockey stick



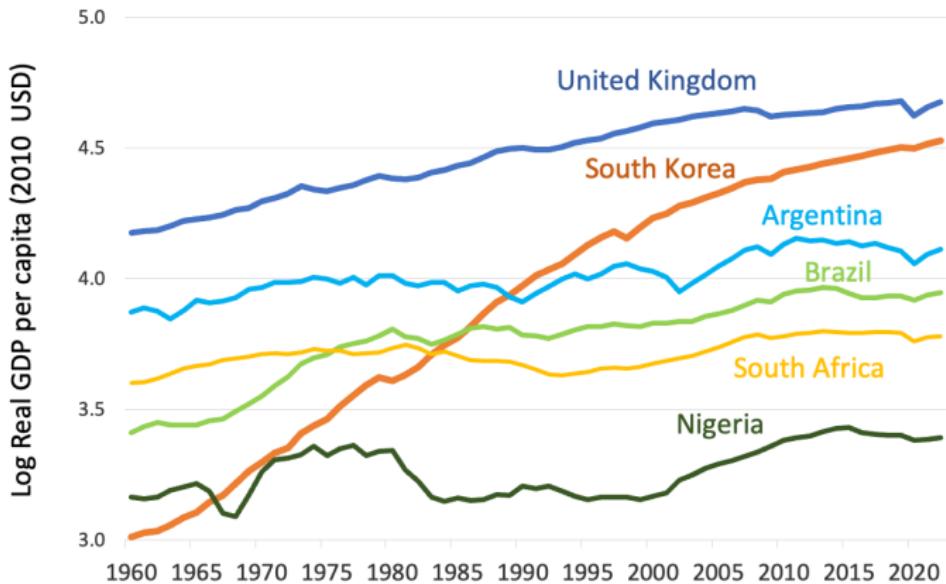
## Macroeconomic facts

World population took off before living standards

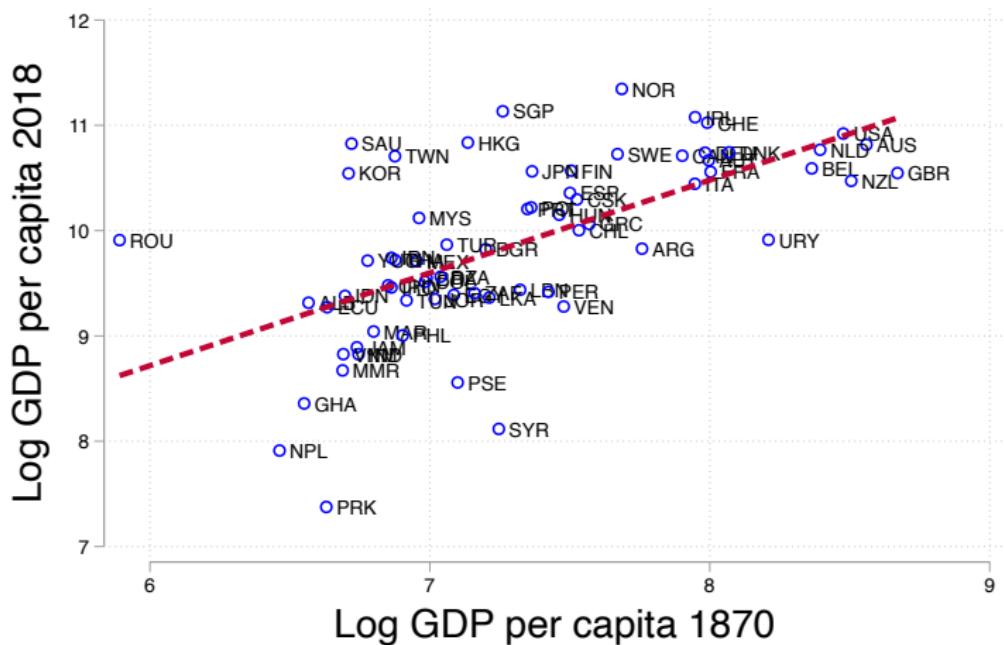


## Macroeconomic facts

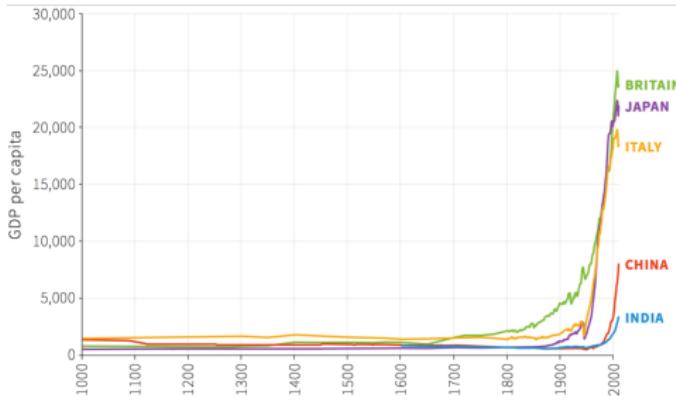
## Growth convergence &amp; growth divergence



## Persistence in GDP per capita



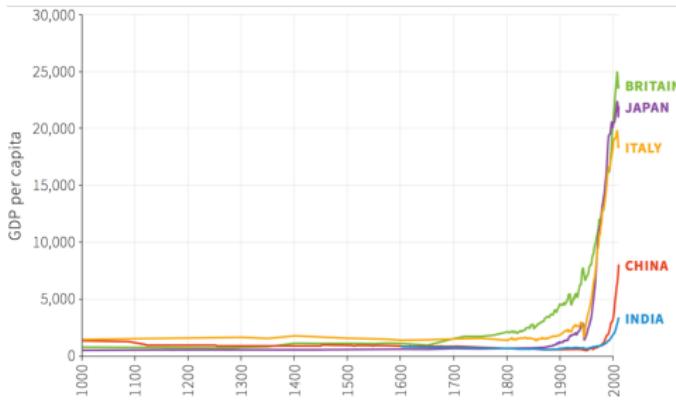
# Macroeconomic facts



How did all this happen?

Why some countries became rich & others much less?

## Macroeconomic facts



How did all this happen?

Why some countries became rich & others much less?

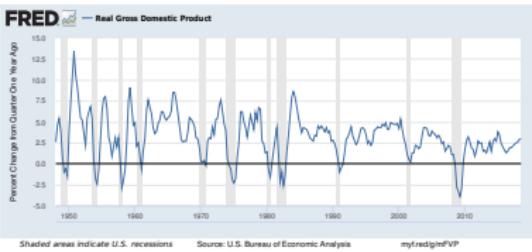
- ▶ Capitalism → industrial revolution → growth & inequality
- ▶ Capital accumulation? Technological progress?  
Institutions? Colonialism? Geography? History? Luck?
- ▶ mechanics of growth vs fundamental causes

## Macroeconomic facts

## Business cycles in the US



(a) log Real US GDP



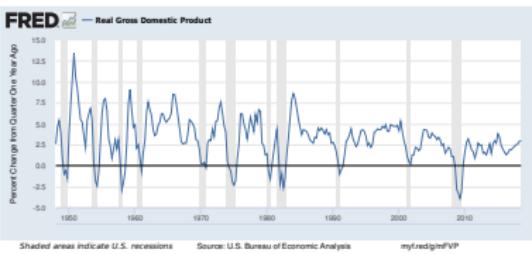
(b) quarterly growth rate (YoY)

## Macroeconomic facts

## Business cycles in the US



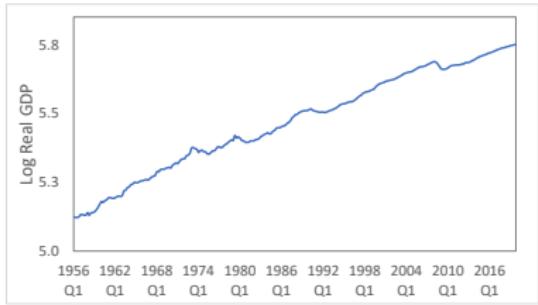
(c) log Real US GDP



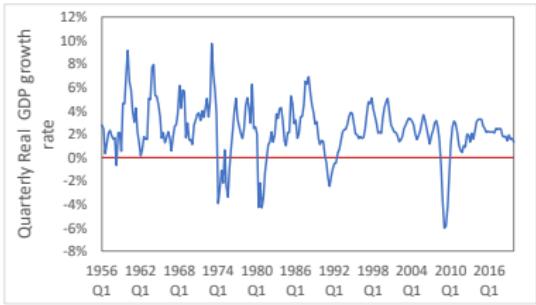
(d) quarterly growth rate (YoY)

- ▶ Long(-ish) expansions interrupted by short recessions.
- ▶ No regular cycles, apparently.

# Business cycles in the UK



(e) log Real UK GDP



(f) quarterly growth rate (YoY)

- ▶ Broadly similar features.

## Four ‘Eras’ of Macroeconomics

- ▶ 1930s: Great Depression and Keynesian revolution.
- ▶ 1940s-1973: Golden Age and neoclassical synthesis.
- ▶ 1970s-mid-1980s: Neoclassical counter-revolution
- ▶ Late 1980s-?: New-Keynesian new synthesis

# A stylized history of macroeconomics

## Four 'Eras' of Macroeconomics:

- ▶ **1930s: Great Depression and Keynesian revolution.**
- ▶ 1940s-1973: Golden Age and neoclassical synthesis.
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- ▶ Late 1980s-? New-Keynesian new synthesis

# A stylized history of macroeconomics



*“On the one side are those who believe that the existing economic system is a self-adjusting system (...) On the other side of the gulf are those that reject the idea that the existing economic system is, in any significant sense, self-adjusting.*

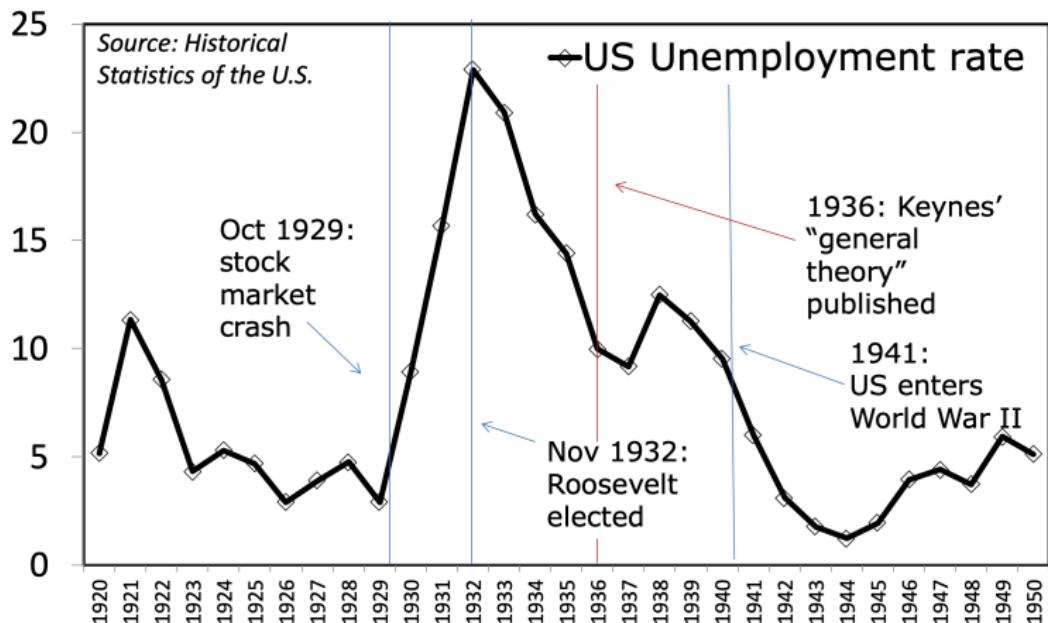
*The strength of the self-adjusting school depends on it having behind it almost the whole body of organised economic thinking of the last hundred years (...)*

*Thus, if the heretics on the other side of the gulf are to demolish the forces of nineteenth-century orthodoxy (...) they must attack them in their citadel (...) Now I range myself with the heretics.”*

(Keynes, 1973a, Vol. XIII, pp. 485–92)

# A (stylized) bit of history

## The Great Depression and the birth of modern macroeconomics



## The Keynesian revolution

- ▶ Strongly influenced by the historical context.
- ▶ Focus on *aggregate* variables.
- ▶ Macroeconomic equilibrium can feature involuntary unemployment.
- ▶ Aggregate demand determines the level of output in the short-run.

## The 'Eras' of Macroeconomics:

- ▶ 1930s: Great Depression and Keynesian revolution.
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## A stylized history of macroeconomics

### 1940s-1973: Golden Age & neoclassical synthesis

- ▶ Keynesian ideas dominate, and influence policy
  - Demand management
  - Active fiscal policy
- ▶ ‘Golden Age’ in industrialized economies;
- ▶ ‘Neoclassical synthesis’ in economic theory



## The Neoclassical Synthesis

- ▶ Reconcile neoclassical micro and Keynesian macro
- ▶ IS-LM + Phillips curve
- ▶ Theoretical extensions:
  - portfolio analysis [Tobin];
  - open economy [Mundell-Fleming];
  - **growth** [Harrod, Robinson, Kaldor, Solow].
- ▶ Large-scale econometric models [Lawrence Klein, Cowles Commission]

## The ‘Eras’ of Macroeconomics:

- ▶ 1930s: Great Depression and Keynesian revolution.
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## A stylized history of macroeconomics

### 1970s: Counter-revolution

- ▶ 1970s economic crises
  - labor unrest
  - stagflation
- ▶ Paradigm shift in macro theory
  - Monetarism (1960s)
    - natural unemployment rate
    - quantity of money
  - 'New-Classical' Macro (1970s-80s)
    - Lucas critique → microfoundations
    - business cycles as optimal responses to shocks



A (stylized) bit of history

## The 'Eras' of Macroeconomic theory

- ▶ 1930s: Great Depression and Keynesian revolution.
- ▶ 1940s-1973: Golden Age and neoclassical synthesis.
- ▶ 1970s-mid-1980s: Neoclassical counter-revolution
- ▶ **Late 1980s-?: New-Keynesian new synthesis**

A (stylized) bit of history

## New-Keynesian/DSGE: a new synthesis

- ▶ Historical context
  - Late 1980s-2007
  - Great Moderation in advanced economies [graph](#)
- ▶ Trends in macro theory
  - New-Keynesian DSGE models
  - a new-synthesis



## A (stylized) bit of history

### Recent trends

- ▶ 2008-09 Great Recession & slow recovery induced some rethinking
  - ▶ not a revolution, though
- ▶ Hysteresis
- ▶ Secular stagnation models
- ▶ The Great Return of fiscal policy? (at least at the ZLB...)
- ▶ HANK: Heterogeneous Agents New-Keynesian Models

## Rules of the game

a. Textbook

David Romer *Advanced Macroeconomics*, Fifth Edition  
available to read on KCL library services

*Also have a 'math for econ' textbook at hand (Chiang or similar).*

b. Readings

A reading every week (more or less) to do *before the in class*.  
It is crucial that you do the reading.

c. Keats page

for materials, assignments and announcements

d. Laptop ban

use of electronic devices is banned in this class.

e. Assessment

- o Essay (due Dec 18) – 50%
- o Final exam – 50%

## The plan, more in detail

1. **Week 1:** Introduction + Harrod model
2. **Week 2:** Solow growth model
3. **Week 3:** RCK + OLG models
4. **Week 4:** Endogenous growth theory
5. **Week 5:** Fundamental causes of growth
6. **Week 6:** Real Business Cycle theory
7. **Week 7:** Key elements of New Keynesian theory
8. **Week 8:** Simplified New Keynesian model
9. **Week 9:** Financial markets
10. **Week 10:** Labor market

## Next readings

Before Friday Oct 4 lecture:

- ▶ Romer textbook, Chapter 1 (skip Section 1.8)

Before Friday Oct 11 lecture:

- ▶ Romer textbook, Chapter 2