

Part 1 Paper 2: Macroeconomic Principles II

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University of Cambridge

Lecture Times/Locations:

Tuesday 12:00-13:00 (Lady Mitchell Hall)

Wednesday 10:00-11:00 (Little Hall)

Office Hours:

Wednesday, 11:00-12:00, Room 43, Austin Robinson Building

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1 Overview

The second part of the Macroeconomic Principles course considers short-run fluctuations in the macroeconomy, and appropriate policy responses to them. The first part introduces the Keynesian IS-MP/LM framework as a device for considering demand-driven equilibrium, and contrasts this system with the Classical approach. The next section builds to the AS-AD framework as a hybrid model linking short-run and long-run analysis, allowing inflation and output to be determined jointly. The course then turns to open economy macroeconomics in the short run, considering fixed and floating exchange rate regimes, and the different policy options available for governments in these settings.

2 Objectives

After completing this course, students should have acquired an understanding of:

- The link between aggregate demand and aggregate output in the short run (Keynesian analysis)
- The Keynesian multiplier, and the factors that affect this
- The role monetary and fiscal policy can play in stabilising the economy
- The short-run supply-side relationship between output and prices
- The relationship between real exchange rates, nominal exchange rates, and fiscal and monetary policy

3 Textbooks

1. Jones, Macroeconomics, International Student Edition, 6th Edition (2024)
2. Mankiw and Taylor, Macroeconomics, European Edition, 2nd Edition (2014)
 - Full text available online via <https://idiscover.lib.cam.ac.uk> (search for ISBN 1473707951)

Jones will be the primary textbook. However, Mankiw and Taylor is still useful as a reference.

4 Course Material

The lecture slides in pdf format, supervision assignments and other relevant material will be made available on the course Moodle site.

5 Outline

- Lecture 1: The Short Run and Recent Developments
- Lecture 2: The Keynesian Cross
- Lecture 3: The IS Curve
- Lecture 4: Monetary Policy and the IS-MP Model
- Lecture 5: Monetary Policy Rules
- Lecture 6: Interest Rates and the Money Supply
- Lecture 7: Policy Analysis in IS-MP
- Lecture 8: Aggregate Demand in the Short Run
- Lecture 9: Aggregate Supply in the Short Run
- Lecture 10: Price and Inflation Stickiness, Inflation Expectations
- Lecture 11: The AD-AS Model in Practice
- Lecture 12: Policy Responses to Financial Crises
- Lecture 13: Open Economies in the Short Run: Flexible Exchange Rates
- Lecture 14: Open Economies in the Short Run: Fixed Exchange Rates
- Lecture 15: Policy Options for Open Economies
- Lecture 16: Capital Controls and Trade Barriers