

## **Part IIA Paper 2 Macroeconomics**

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### **Objectives**

This paper aims to develop a better understanding of macroeconomics and provide a rigorous framework for macroeconomic analysis. It covers influential analytical models on saving, investment, labour supply, unemployment, macroeconomic policy, money, interest rates and exchange rates. Upon completion of this paper, students should have

- the ability to analyze macroeconomic phenomena using rigorous models;
- a critical perspective on the assumptions underlying models in macroeconomics;
- a firm understanding of the empirical and policy implications of key macroeconomic models.

### **Paper Content**

The paper analyzes four areas of macroeconomics:

1. Intertemporal macroeconomics: Consumption, investment, labour supply and government budget decisions in an intertemporal, optimizing, general equilibrium framework, including the permanent income/life-cycle hypothesis, and Ricardian Equivalence.
2. Unemployment and the labour market: Macroeconomic labour market theories based on the Classical, Keynesian, New Classical and New Keynesian approaches, including the natural rate hypothesis, NAIRU, search and matching, efficiency wages and hysteresis.
3. Monetary economics: Monetary theory, policy and financial system, including rational expectations, policy ineffectiveness and inflation bias (New Classical economics), money demand, money supply process and banking system, central bank and monetary operating framework, bond market and term structure of interest rates, financial market efficiency, monetary transmission, and financial crises.
4. International macroeconomics: Exchange rates and international macroeconomic policy, including asset market approach, exchange rate overshooting, flexible price monetary model, Balassa-Samuelson effect, international macroeconomic interdependence, fixed exchange rates and currency crises.

### **Prerequisites**

It is expected that students are familiar with:

- Intermediate macroeconomics at the level of Part I, Paper 2 (Macroeconomics) or Mankiw and Taylor (2014), *Macroeconomics – European Edition*;
- Quantitative methods at the level of Part I, Paper 3 (Quantitative Methods in Economics).

## **Lecture Courses**

The paper consists of four lecture courses, with a total of 36 hours:

*Intertemporal Macroeconomics* (Dr P Rendahl, 8 hours, weeks 1-4, Michaelmas Term)

*Unemployment and the Labour Market* (Dr P Rendahl, 8 hours, weeks 5-8, Michaelmas Term)

*Monetary Economics* (Dr P Geraats, 12 hours, weeks 1-4, Lent Term)

*International Macroeconomics* (Dr P Geraats, 8 hours, weeks 5-8, Lent Term)

Course outlines will be available on the Faculty website (<http://www.econ.cam.ac.uk>) and there will be a course website for each course on which lecture handouts will be posted.

## **Readings**

Detailed reading lists are provided in the course outlines. Some representative textbooks for this paper include:

- Wendy Carlin and David Soskice (2006), *Macroeconomics: Imperfections, Institutions and Policies*, Oxford University Press.
- Paul R. Krugman, Maurice Obstfeld and Marc Melitz (2014), *International Economics: Theory and Policy* (Parts III and IV)
- Frederic S. Mishkin, Kent Matthews and Massimo Giuliodori (2013), *The Economics of Money, Banking, and Financial Markets*, European Edition.

## **Supervisions**

Suggested supervision assignments will be posted on the course website. The Director of Studies in each College is responsible for organizing the supervisions.

## **Examination**

The structure of the three-hour written examination [with section weights in brackets] is to answer:

- Four compulsory short questions in section A [50%]
- One out of two multi-part questions in section B [25%]
- One out of four essay questions in section C [25%]

Past exam papers are available on the Faculty website.