

## Part IIB Paper 2 Macroeconomic Principles and Problems

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### Aims and Objectives

This paper aims to present and analyse contemporary problems and policy issues in the macro economy. It will build on the foundations laid in Part 1 and it will also develop more fully the theoretical and analytical approaches presented in the Part IIA macroeconomics course.

### Lecture Courses

This paper consists of four lecture courses. Course outlines will be posted on the faculty website as well as other reading material, and suggested supervision questions, also available at the lecturers' webpages.

#### **Economic Growth** (Dr T. Cavalcanti), 8 lectures, weeks 1-4, Michaelmas Term)

Definitions and stylised facts of economic growth, neo-classical growth theory, empirical evidence and examination of the convergence debate, human capital, R&D and endogenous growth models, institutions and fundamental determinants of economic growth.

#### **Macroeconomic Policy** (Dr P. Geraats, 8 hours, weeks 5-8, Michaelmas Term)

This course analyzes monetary and fiscal policy, building on the material covered in Part IIA Paper 2. It covers the efficient policy frontier (Taylor curve), macroeconomic policy under uncertainty (signal extraction, Brainard principle), effective lower bound (ELB) and unconventional monetary policy (large-scale asset purchases, forward guidance); tax smoothing, government debt dynamics, fiscal deficit bias, political business cycles and fiscal policy rules.

#### **Business Cycle Theory** (Prof. V Carvalho), 8 lectures, weeks 1-4, Lent Term)

Stylized facts about the business cycle with a particular emphasis on the Great Recession. Introduction to frictionless models of the business cycle: formulation and analysis of the Real Business Cycle model. Introduction to New Keynesian models of the business cycle: imperfect competition, sticky prices and a role for monetary policy. New directions in business cycle theory (time permitting).

#### **The International Financial System** (Prof. G. Corsetti, 12 hours, weeks 1-8, Lent Term)

Stylized facts of the international financial system today. Models of current account and global imbalances. Models of capital market imperfections and the determinants of the growth in gross foreign assets and cross-border banking. International dimensions of the global crisis. Sovereign risk and default. Global financial stability and safety net. National and international currencies. Monetary cooperation and exchange rate regimes in Europe. Economic policy in an incomplete monetary union. The euro area crisis.

### Prerequisites

Students should be familiar with intermediate macroeconomic models and concepts taught in both Part I, Paper 2 and in Part IIA, Paper 2 or as presented in Robert J. Barro (1997) *Macroeconomics* MIT Press and Paul Krugman and Maurice Obstfeld (2000) *International Economics: Theory and Policy*, Addison-Wesley (parts II and IV). Students are expected to have some knowledge of mathematics and probabilities, in particular taking limits, differentiation, simple optimization techniques, properties of normal random variables, etc., at the level of Part I Paper 3. In addition, econometrics at the level of Part IIA, Paper 3 will be useful in some parts of the paper.

**Main readings**

There is no single textbook for this course. At the beginning of each course, the lecturer will also distribute detailed reading lists that will include academic articles as well as chapters from books.

**Supervisions**

Suggested supervision questions will be posted on the Faculty Moodle Teaching pages.

**Examination**

**For details of the examination structure, please refer to the Form and Conduct Notice pages on Moodle.**