

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 five 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 J B Duarte), 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.

Business Cycle Theory (Dr 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 (Professor G Corsetti, 12 hours, weeks 3-8, Lent Term)

Stylized facts of the international financial system today: global imbalances, capital flows, return differentials. 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. National and international currencies. Monetary cooperation and exchange rate regimes in Europe before the euro. What makes a currency area sustainable and efficient: theory and policy. Economic policy in an incomplete monetary union. The euro area crisis.

Topics in Macroeconomic Policy (Dr S Holly, 8 hours, weeks 5-8 Michaelmas Term)

This course covers a number of aspects of macroeconomic policy and builds on the Part IIA course in Macroeconomic Policy. The aim is to understand the type of economic reasoning that lies behind modern approaches to policy such as the use of constitutionally independent monetary authorities. Topics covered include: rules and constrained discretion; operating characteristics of feedback rules; the efficient policy frontier; the Taylor Principle; inflation targeting; fiscal rules and sustainability; policy coordination; the role of money in modern macroeconomics; the effect of uncertainty on the conduct of policy; the signal extraction problem; deflation, liquidity traps and the zero interest rate floor; transparency in the conduct of policy.

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

Selected chapters from the following books:

Jones, C.I. (2001), Introduction to Economic Growth (2nd ed.), W.W. Norton & Co

De Grauwe, P. (2007), Economics of Monetary Union, 7th edition, Oxford University Press, part II

Carlin, W. and D. Soskice (2015), Macroeconomics: Imperfections, Institutions, Instability and the Financial System, Oxford University Press

At the beginning of each course, the lecturer will also distribute more detailed reading lists that will include academic articles as well as chapters from other books.

Supervisions

Suggested supervision questions will be posted on the Faculty website.

Examination

The examination for this paper will be three hours. Students are asked to answer four out of ten questions. Past exams can be obtained from the Faculty website. Questions will be mathematical or essay based. Some questions will require both a short essay answer and a mathematical response.