

Advanced Diploma in Economics

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 consumption, saving, investment, labour supply, unemployment, macroeconomic policy, money, interest rates and exchange rates. Upon completion of this paper, students should have:

- the ability to analyse 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 analyses several areas of macroeconomics:

1. Economics of the Short Run: the short run model; IS, LM and MP curves; aggregate demand in the short run; monetary policy in the short run model; theories of short run aggregate supply; AD-AS framework and policy; the short run model and the great recession; small open economies in the long and short run; macroeconomic policy in open economies.
2. 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.
3. 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.
4. Monetary Economics: Monetary theory & policy and financial markets, including rational expectations, New Classical economics, the policy ineffectiveness hypothesis, the Lucas critique, dynamic inconsistency, the inflation bias, the (static) Barro-Gordon model, monetary policy strategies, money demand, the money supply process, the role of the banking system and central bank, the expectations theory of the term structure, the efficient markets hypothesis, monetary transmission channels, and financial crises.
5. International Macroeconomics: Exchange rates and international macroeconomic policy, including the asset market approach, exchange rate overshooting, the flexible price monetary model, the Balassa Samuelson effect, international macroeconomic interdependence, fixed exchange rates and currency crises.
6. Topics in Macroeconomic Policy: Fiscal Policy, feedback rules, efficient policy frontier, information uncertainty, liquidity trap, Zero interest rate bound, inflation targeting and transparency, price level targeting and nominal income targeting, money, credit and monetary policy.

Lecture Courses

- [Economics of the Short Run](#) (Dr K Mohaddes, 8 hours, weeks 1-8, Michaelmas Term)
- [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)
- [Topics in Macroeconomic Policy](#) (Dr K Mohaddes, 6 hours + 2 hours of classes, weeks 1-8, Lent Term)
- [International Macroeconomics](#) (Dr P Geraats, 8 hours, weeks 5-8, Lent Term)

The course outline and lecture handouts for each course will be posted on the respective lecturer's webpage. See above for the links to the webpages.

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.
- Wendy Carlin and David Soskice (2014), *Macroeconomics: Institutions, Instability, and The Financial System*. 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.
- Mankiw and Taylor (2014), *Macroeconomics* – European Edition
- D. Romer (2006), *Advanced Macroeconomics*, McGraw-Hill, 3rd edition.

Classes

Assignments will be posted on the course website, and can be found on the [paper webpage](#). The teaching assistant for Paper 2 is Fred Maeng (sm2215@cam.ac.uk).

Examination

The structure of the written examination is to answer:

- Five compulsory short questions in section A
- One out of three multi-part questions in section B
- One out of six essay questions in section C

Past exam papers are available on the [Faculty website](#).