

Part IIB Paper 2 Macroeconomic Principles and Problems

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Aims and Objectives

This Paper aims to present and analyse contemporary macroeconomic problems and policy issues. It builds on the foundations laid in Part I, and it also develops 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, online reading material and suggested supervision questions will be posted on Moodle.

Macroeconomic Policy (Dr P. Geraats, 8 hours, weeks 1-4, 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.

International Financial System (Prof. G. Corsetti, 12 hours, weeks 3-8, Michaelmas Term)

Stylized facts of the international financial system today. Current account and global imbalances. International risk sharing and capital market imperfections. The problem of sovereign risk. Debt crises: nature and dynamics. Global financial stability and safety net. National and international currencies. International financial intermediation and the dollar. The euro as an incomplete monetary union. The euro area crisis.

Economic Growth (Dr T. Cavalcanti, 8 hours, weeks 1-4, Lent 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 (Prof. V. Carvalho, 8 hours, weeks 5-8, Lent Term)

Stylized facts about the business cycle. 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).

Prerequisites

Students should be familiar with intermediate macroeconomic models and concepts taught in both Part I Paper 2 and Part IIA Paper 2, or as presented in Robert J. Barro (1997), *Macroeconomics*, MIT Press and Paul Krugman and Maurice Obstfeld (2019), *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 Paper. At the beginning of each course, the lecturer will distribute a detailed reading list that includes academic articles as well as chapters from books.

Supervisions

The supervision programme and suggested supervision assignments will be posted on Moodle. The Director of Studies in each College is responsible for organizing the supervisions.

Examination

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