

14E025

6 ECTS

Macroeconomics II

Overview and Objectives

The course will cover some of the most important topics in modern macroeconomic analysis, focusing on short and medium run dynamics, presenting the basic models and their empirical implications.

Part I studies the real side of the economy: intertemporal choices, consumption, general equilibrium dynamics, real business cycles and labor market frictions.

Part II focuses on monetary policy in closed economies: monetary policy with nominal rigidities, liquidity traps and unconventional monetary policy.

Course Outline

PART I

1. Consumption, saving and asset prices

Intertemporal choices. Uncertainty and optimal consumption. The permanent income hypothesis. Liquidity constraints and precautionary saving. Consumption and asset prices.

2. Business cycles

Labor supply. Firms: production, labor and capital inputs. General equilibrium dynamics. Empirical evidence. Real business cycle theory. Government and the effects of fiscal policy.

3. Unemployment

Labour market frictions. Job search and matching. Unemployment and job flows.

PART II

4. Monetary policy: the basics

Price level determination with flexible prices. Nominal price and wage rigidities: empirics and policy implications. The New Keynesian framework.

5. Liquidity traps

The zero lower bound on the nominal interest rate. Deleveraging and liquidity traps. Unconventional monetary policy.

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Required Activities

Throughout the course, in both parts, problem sets will be assigned, for which you'll have to hand in handwritten solutions the following week. Problem sets are very important, not only because they account for part of your grade, but also and especially because they are necessary to learn the working of the models that we study. The probability of passing the course is almost zero if you do not try and solve the problems yourself. You may work in groups, but each student must hand in separate solutions.

Note: The course is focused on formal analysis of theoretical models. A good mathematical background (especially on optimization methods) is a pre-requisite, as well as having taken a course like Macro I or similar.

Evaluation

The course grade will be based on your performance in the final exam (80%) and the problem sets (20%).

The final exam for both Part I and Part II will take place at the end of the term. The score of the exam will be the average of the two parts.

References

The main references for the course are the following:

PART I

- Romer, David, Advanced Macroeconomics, 4th edition, McGraw-Hill, 2011.
[Chapters 8 (Consumption), 5 (Real Business Cycles) and 10 (Unemployment)]
- Additional readings (some papers on each topic) will be indicated at the beginning of the course.

PART II

- Gali, Jordi, Monetary Policy, Inflation and the Business Cycle: An Introduction to the New Keynesian Framework, Princeton University Press.