
Quick Intro

MACROECONOMIC POLICIES

Macroeconomics

Macroeconomics is concerned with aggregate activity, the level of unemployment, interest rates, inflation, wages, the exchange rate, and the balance of payments with other countries.

- Functioning of the economy in the aggregate
- Outcome of uncoordinated individual decisions

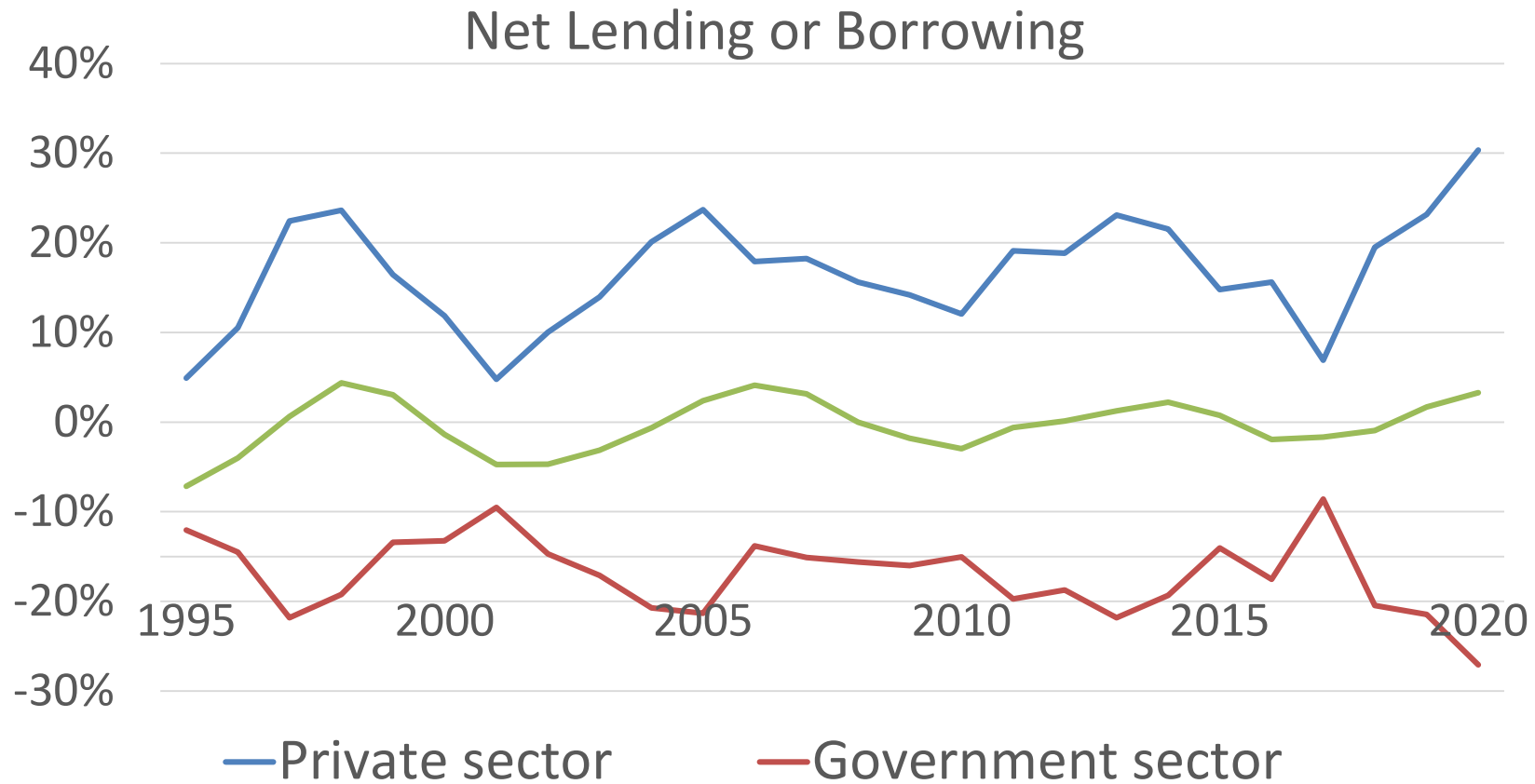
Issues on Macroeconomics

- Measurement, Forecasting
- Economic Growth
- Business cycles
- Inflation and Unemployment
- Monetary and fiscal policies
- Financial stability
- Role of policy

Measurement

- Consistent data
 - National accounts
 - Budget constraints
 - Stock-flow consistency
- Needed to
 - Assess economic performance
 - Identify intervention needs
 - Plan intervention
 - Monitor implementation and results

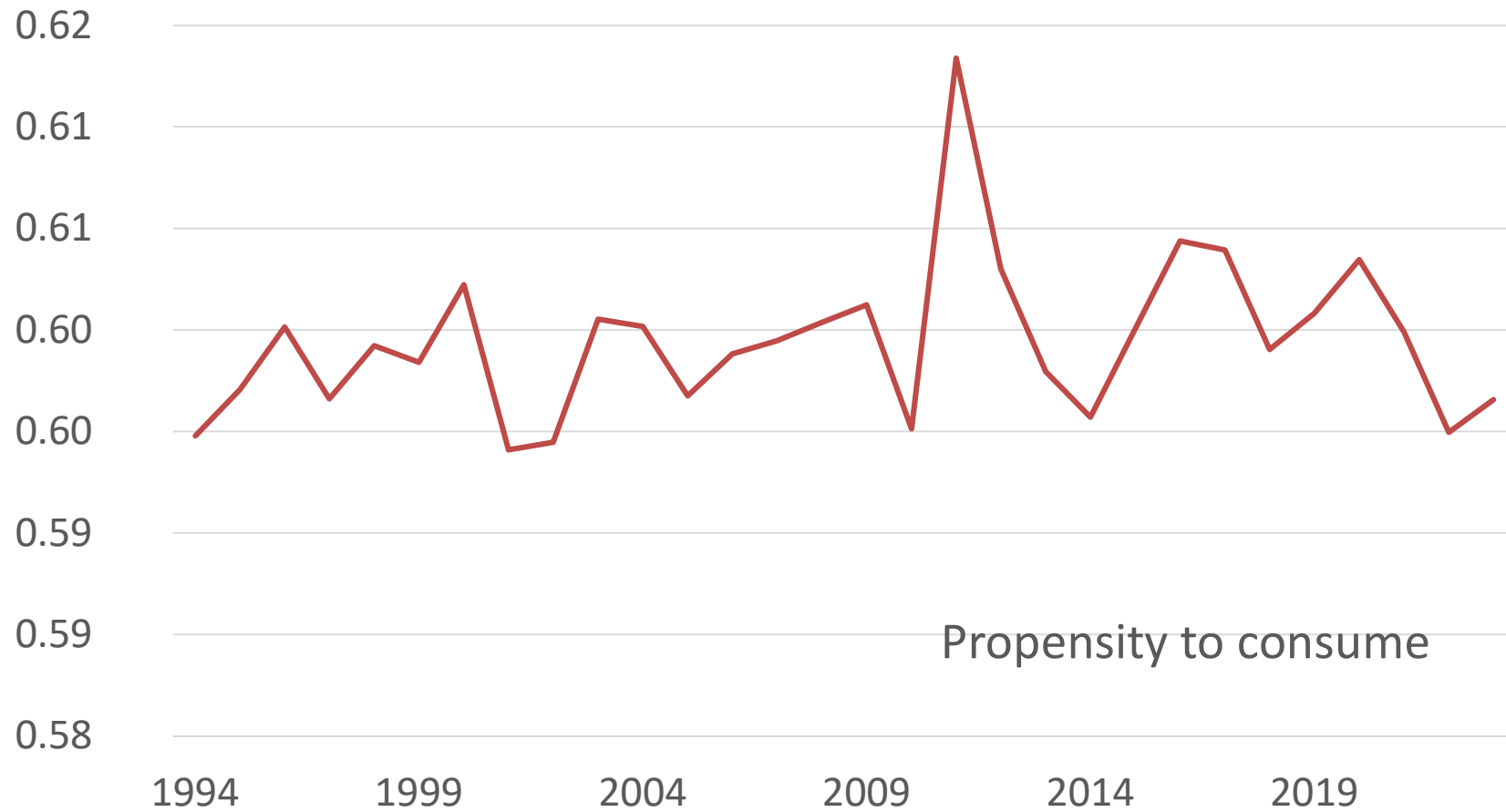
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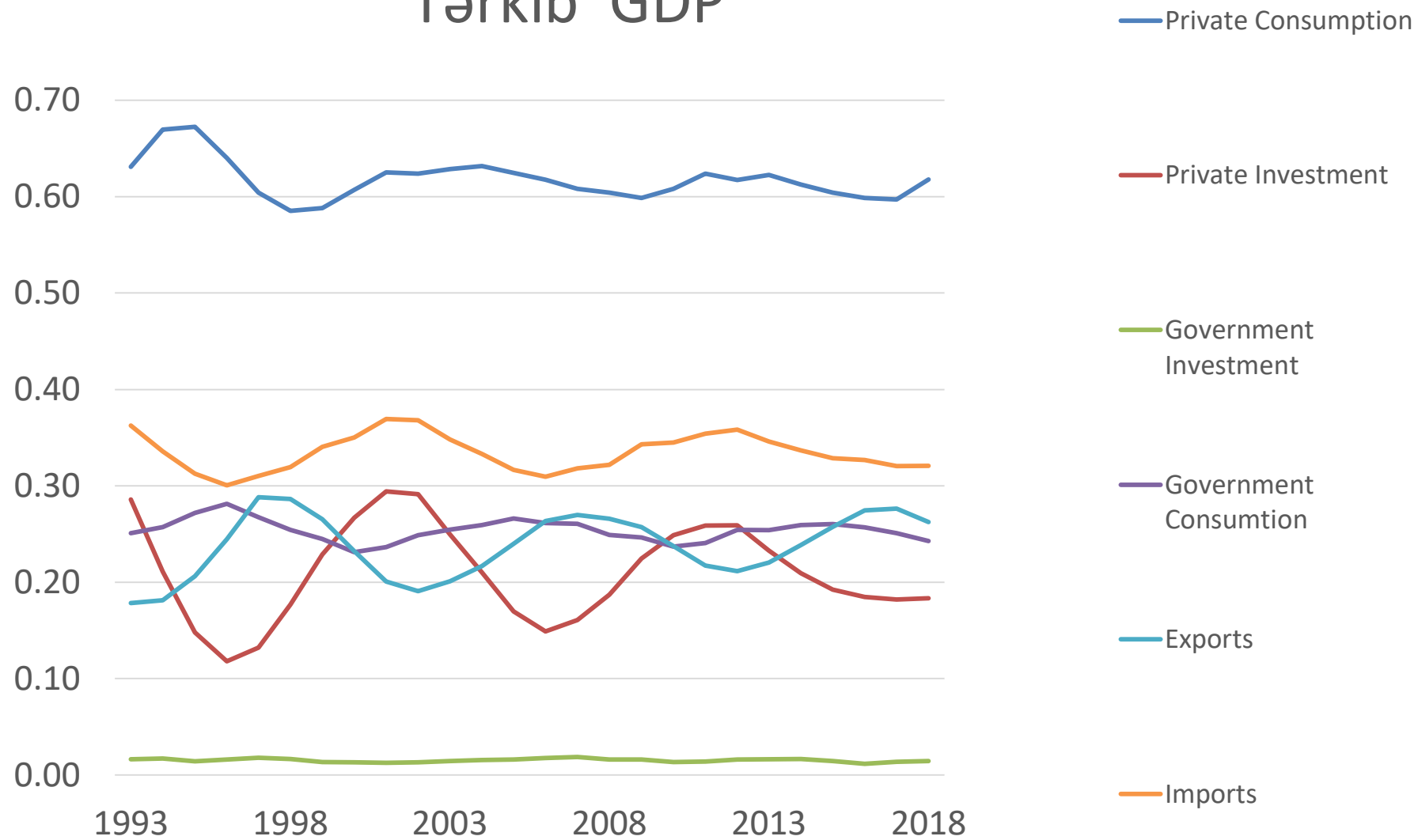
Forecasting and programming

- National accounts frame the relations between data
- But variables evolve according to shocks and responses by individuals
- To forecast, a model is needed, with assumptions regarding how economic agents react
 - Private agents (consumption, investment)
 - Government (policy rules, formal, informal)

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Tərkib GDP



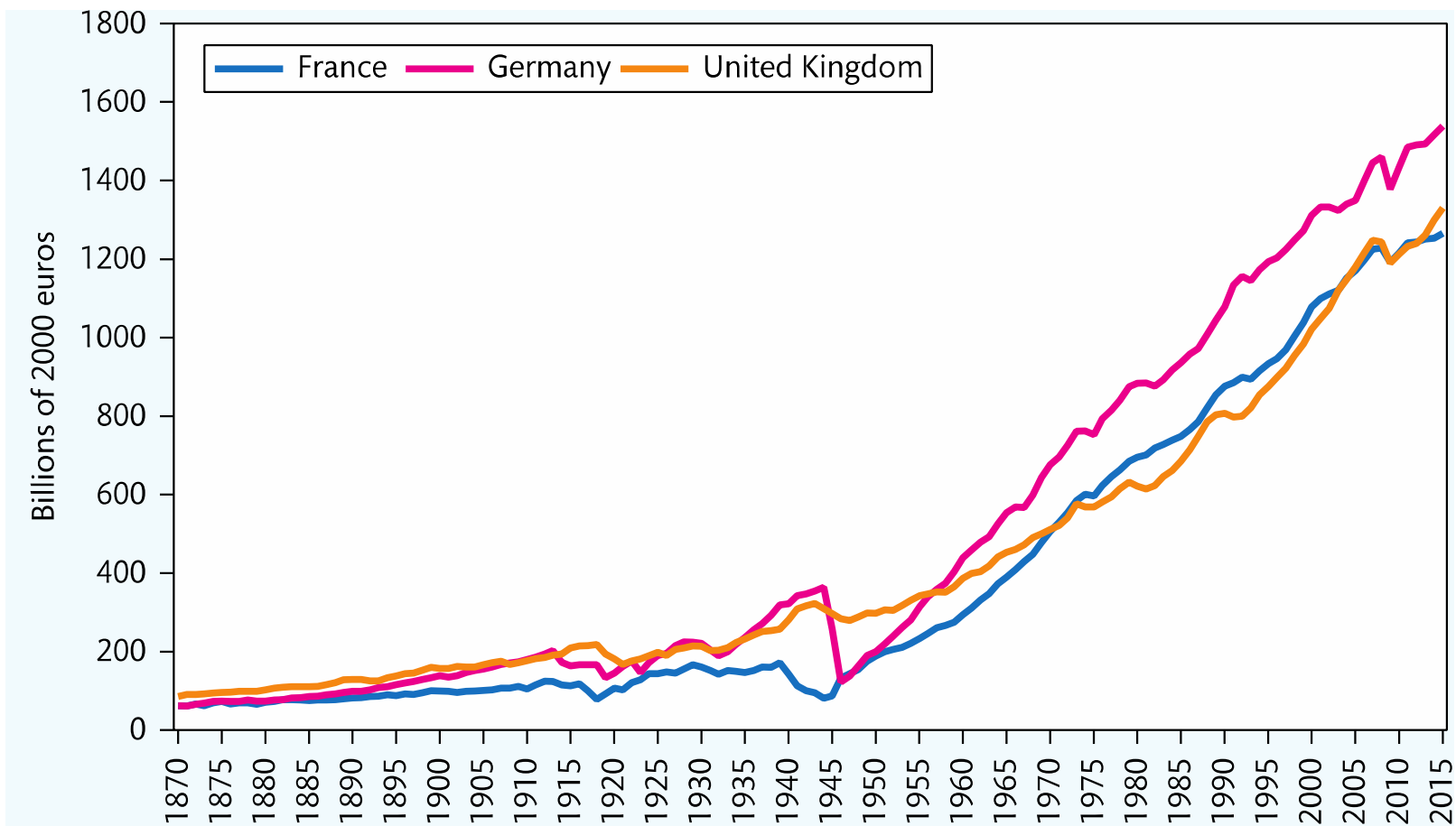
Issues on Macroeconomics

Long – run growth

- Why are some countries richer than other?
- Why are some countries growing faster than other?
- Are per capita incomes converging?
- Where is economic growth coming from?
- Is there something government policies can do about?

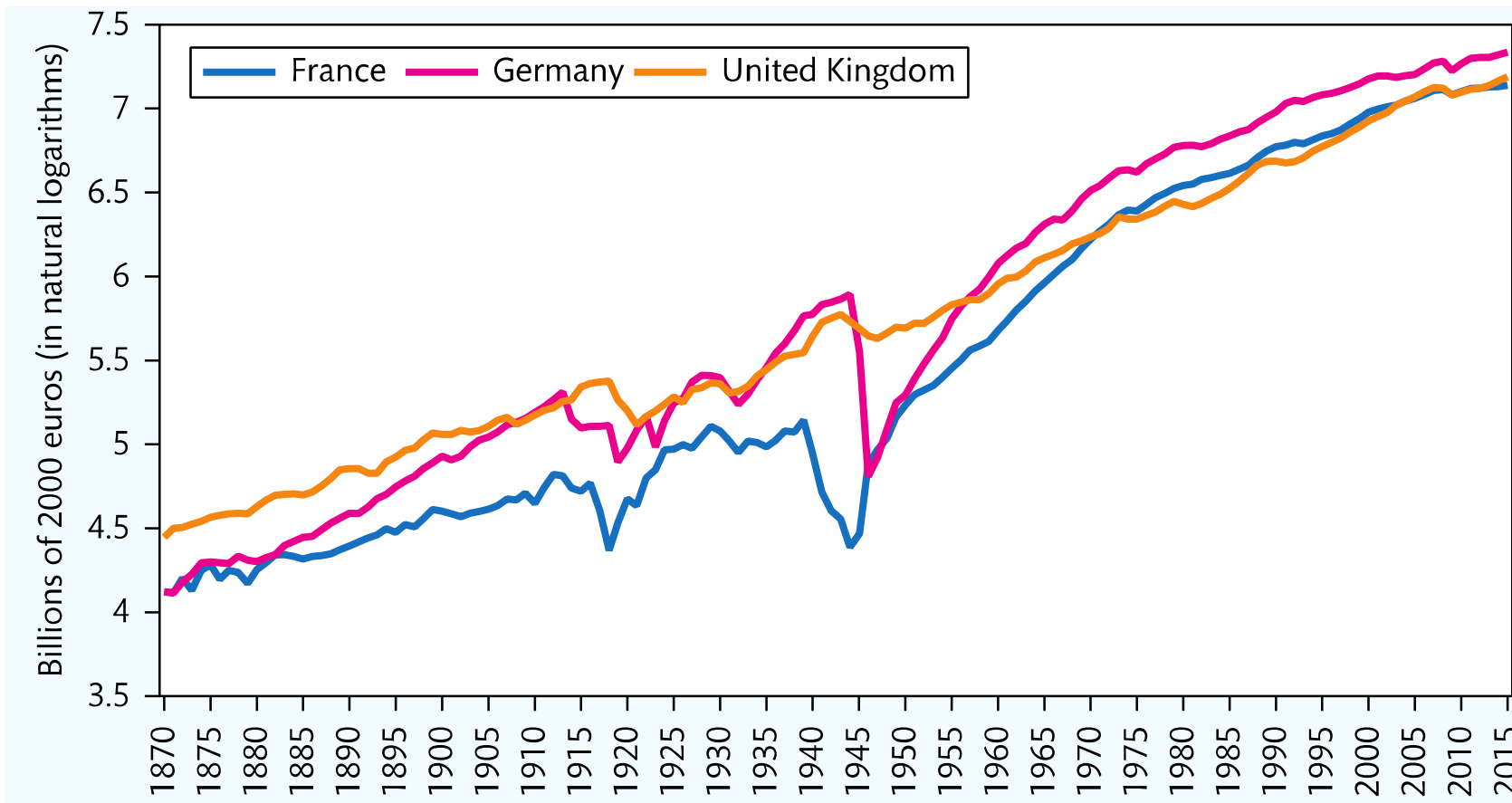
a) Real GDP, original data

Gross Domestic Product, 1870 - 2015

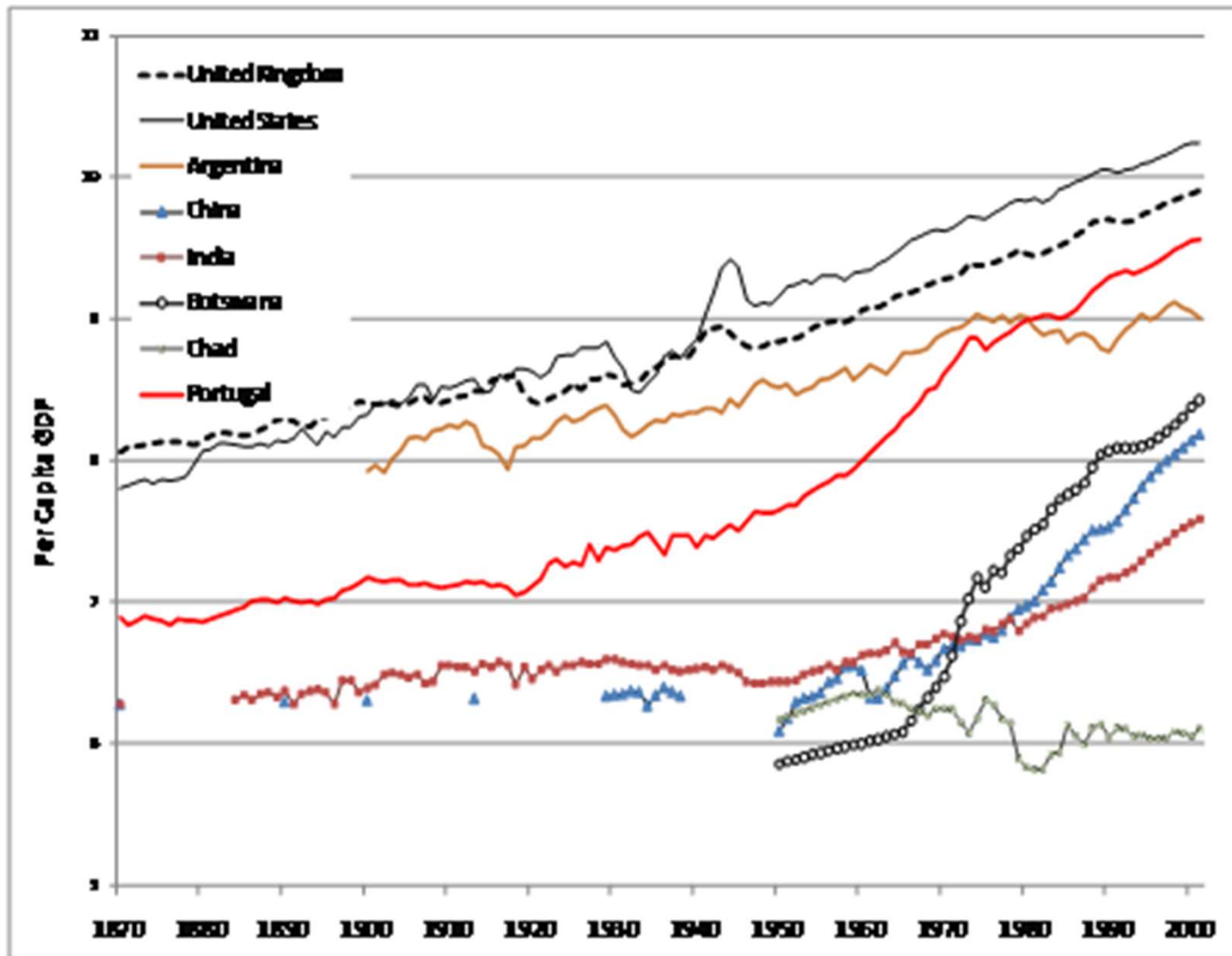


Gross Domestic Product, 1870 - 2015

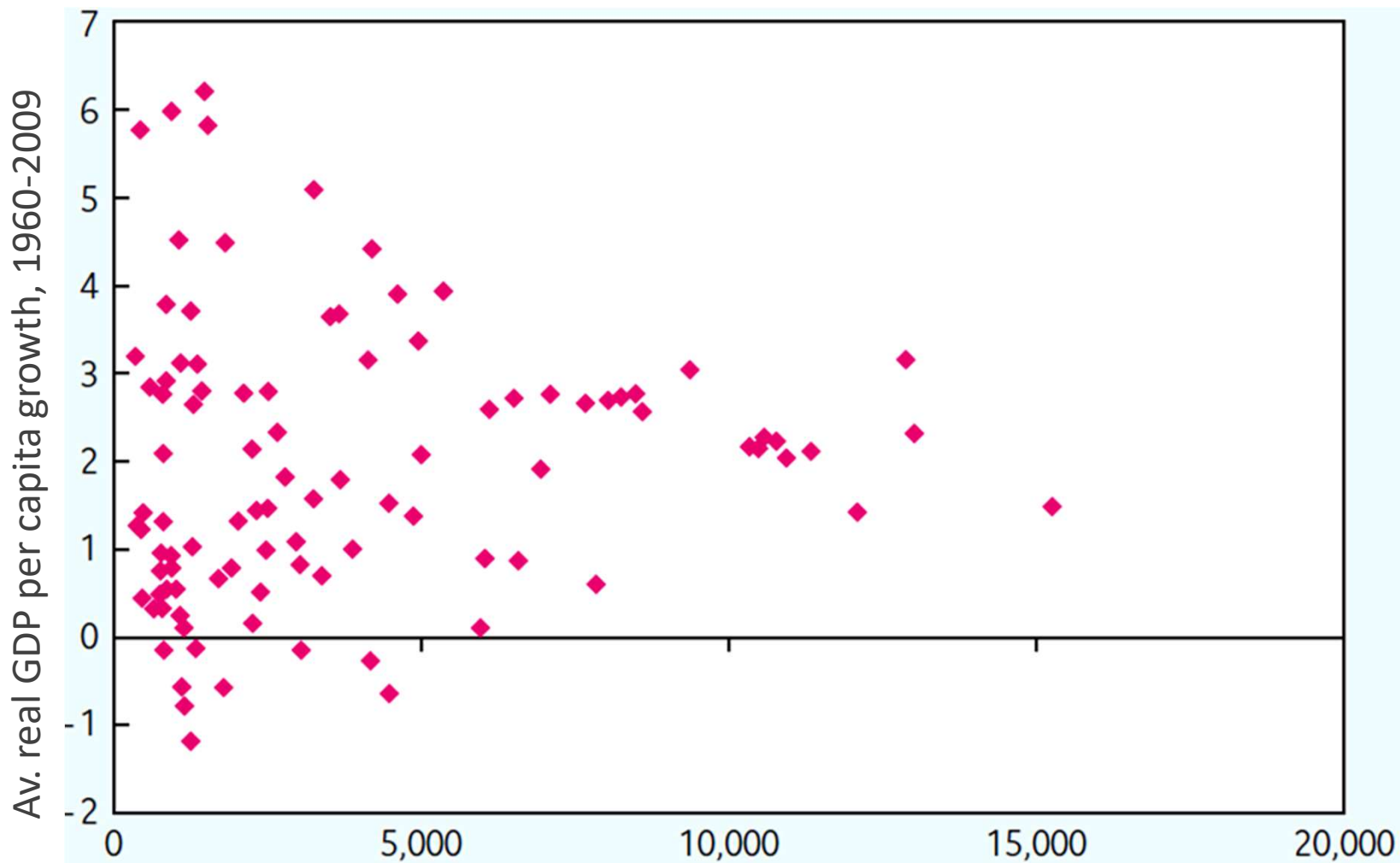
b) Real GDP, logarithmic scale



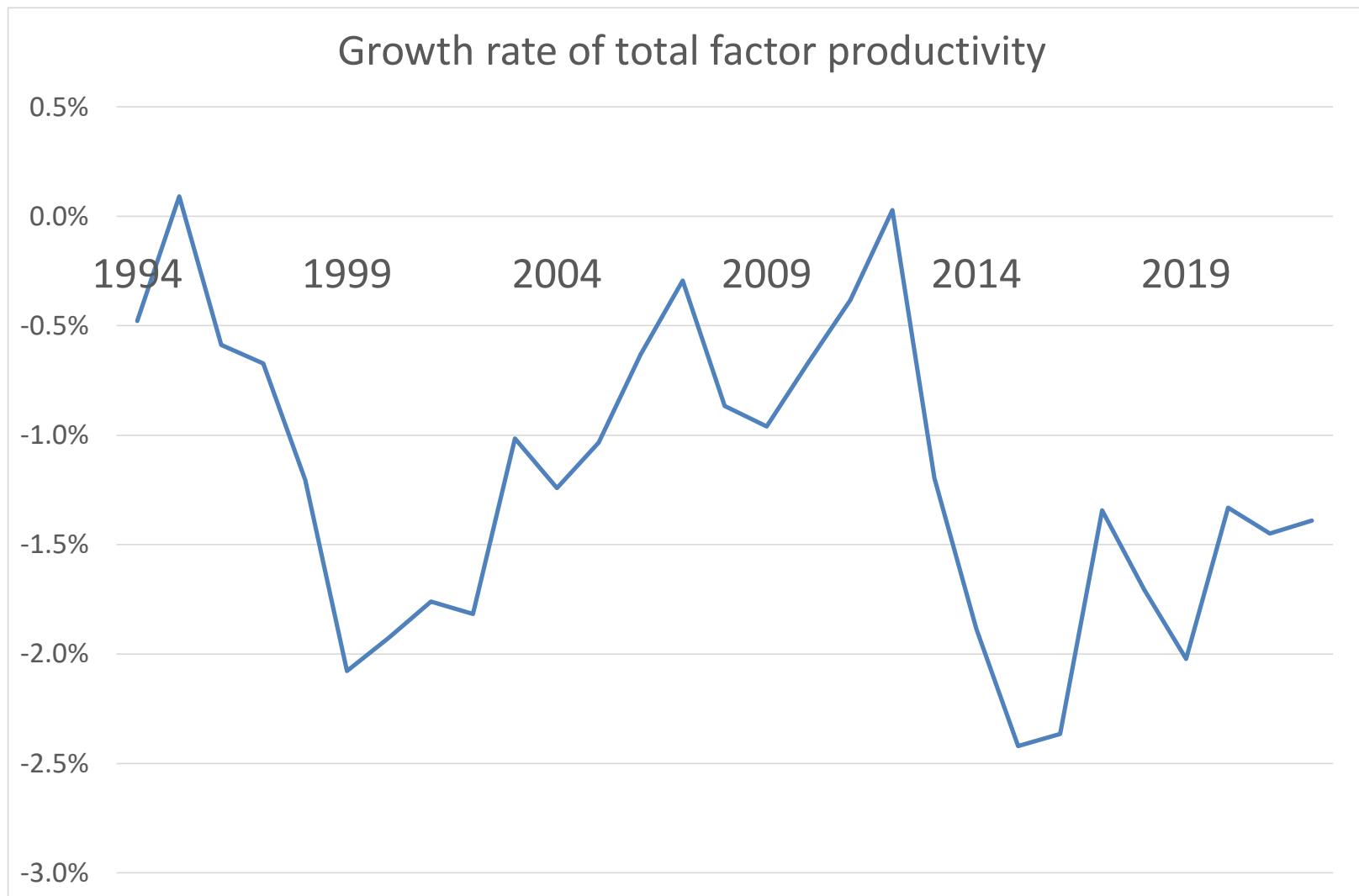
Miracles and disasters



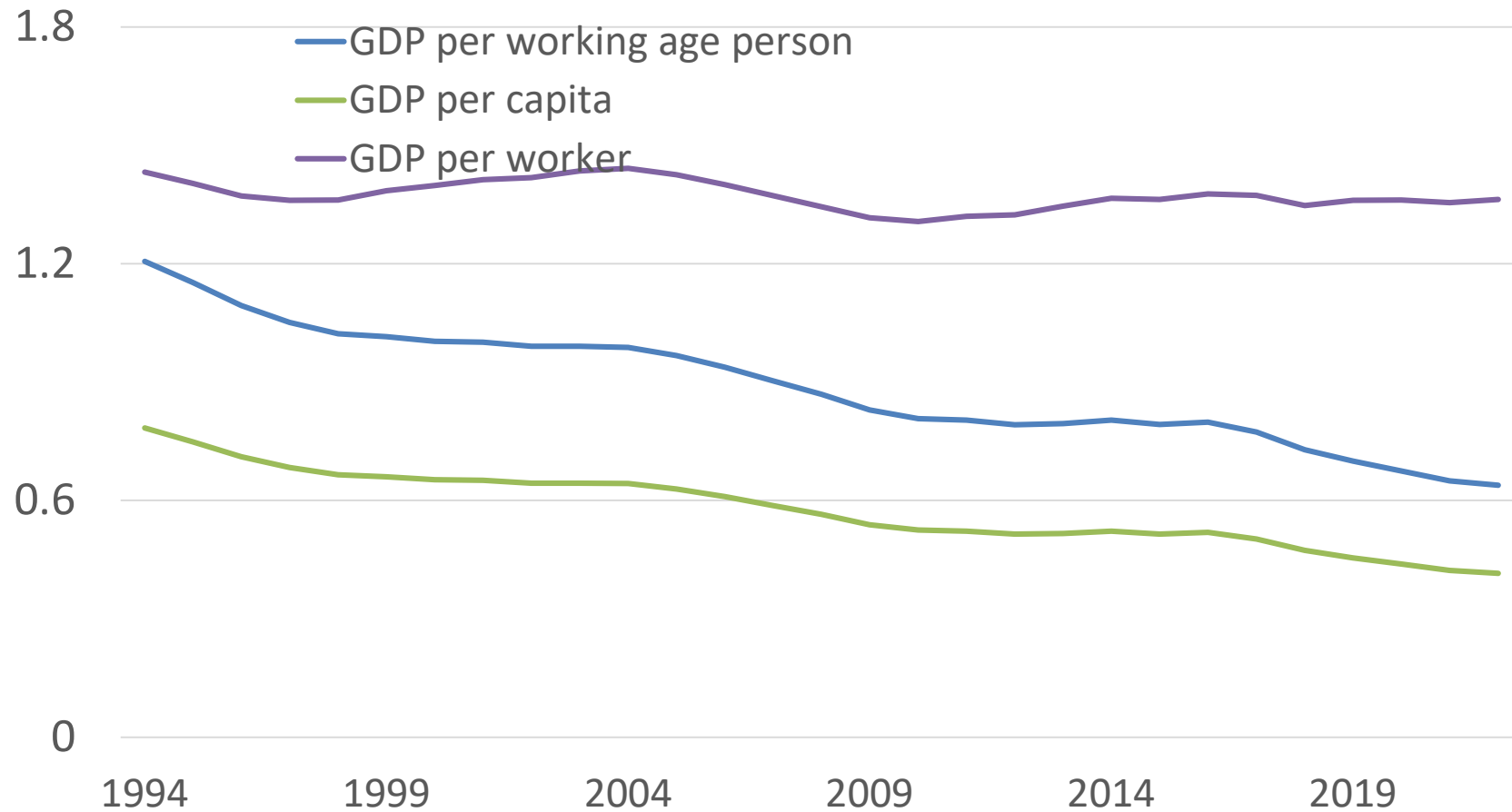
Convergence hypothesis



TFP



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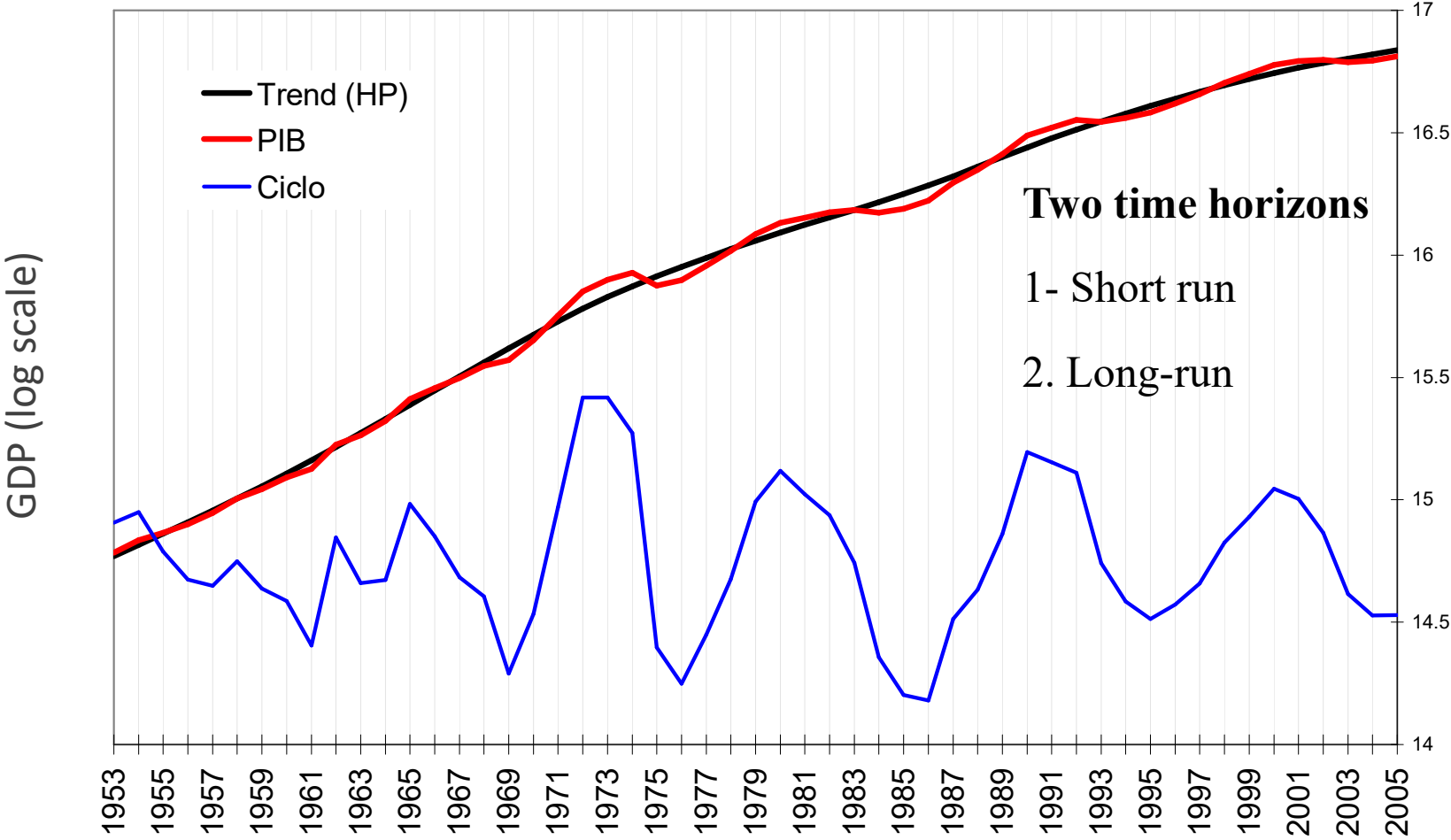


Issues on Macroeconomics

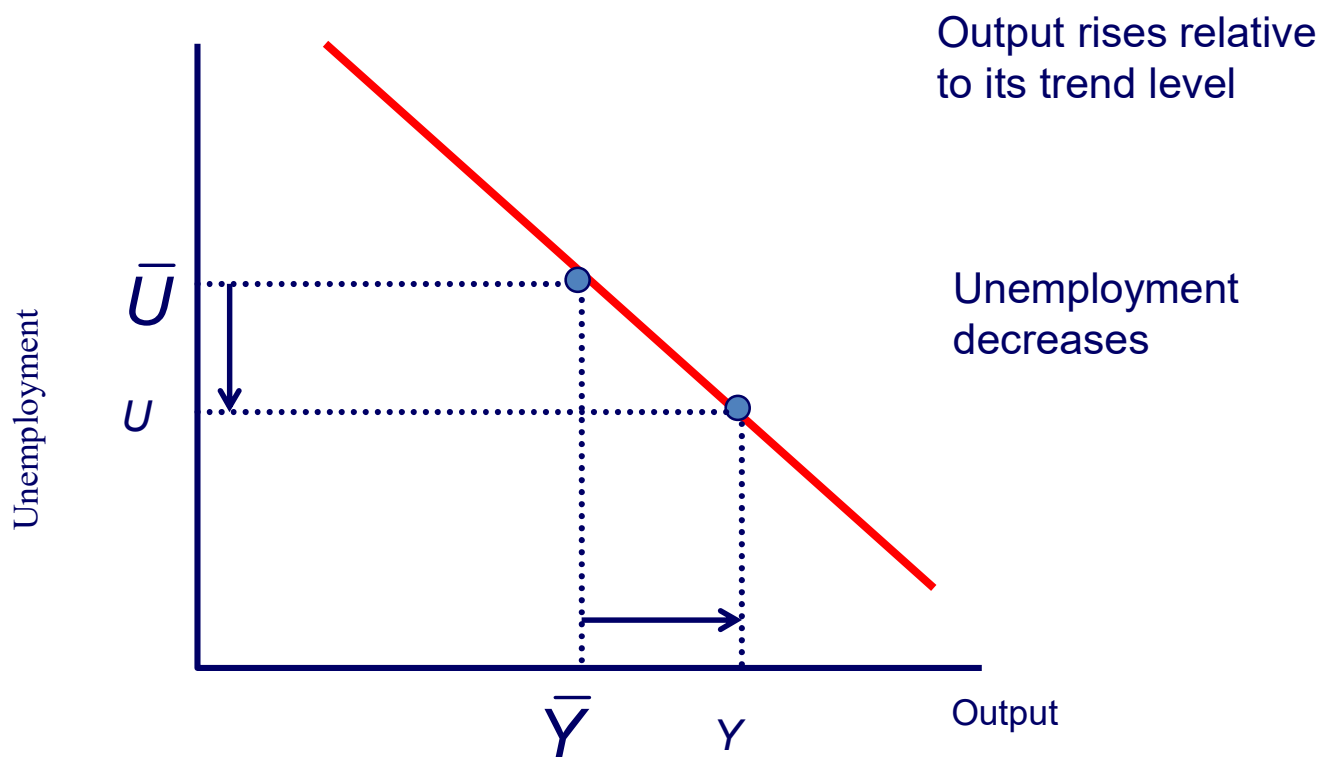
Business cycles

- What causes short-run fluctuations of real GDP?
- Are these caused by exogenous factors or by government intervention?
- What is the role of policy?

Business cycles

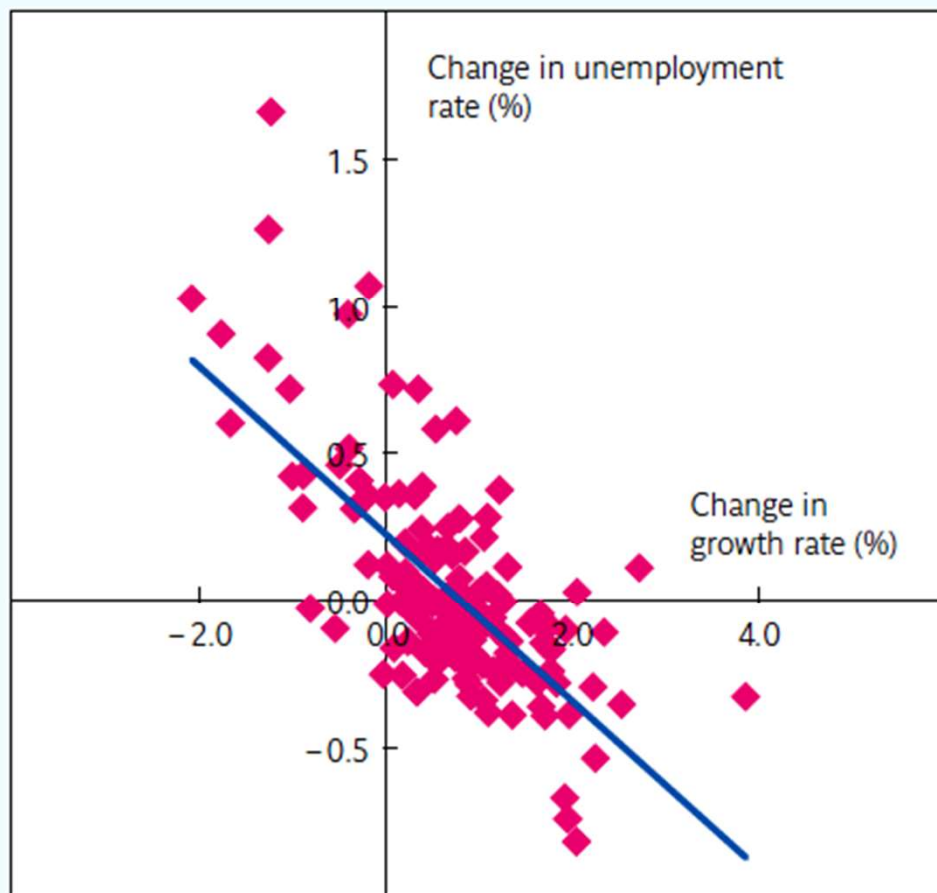


Okun's Law in Theory



Okun's Law in Reality

(a) USA



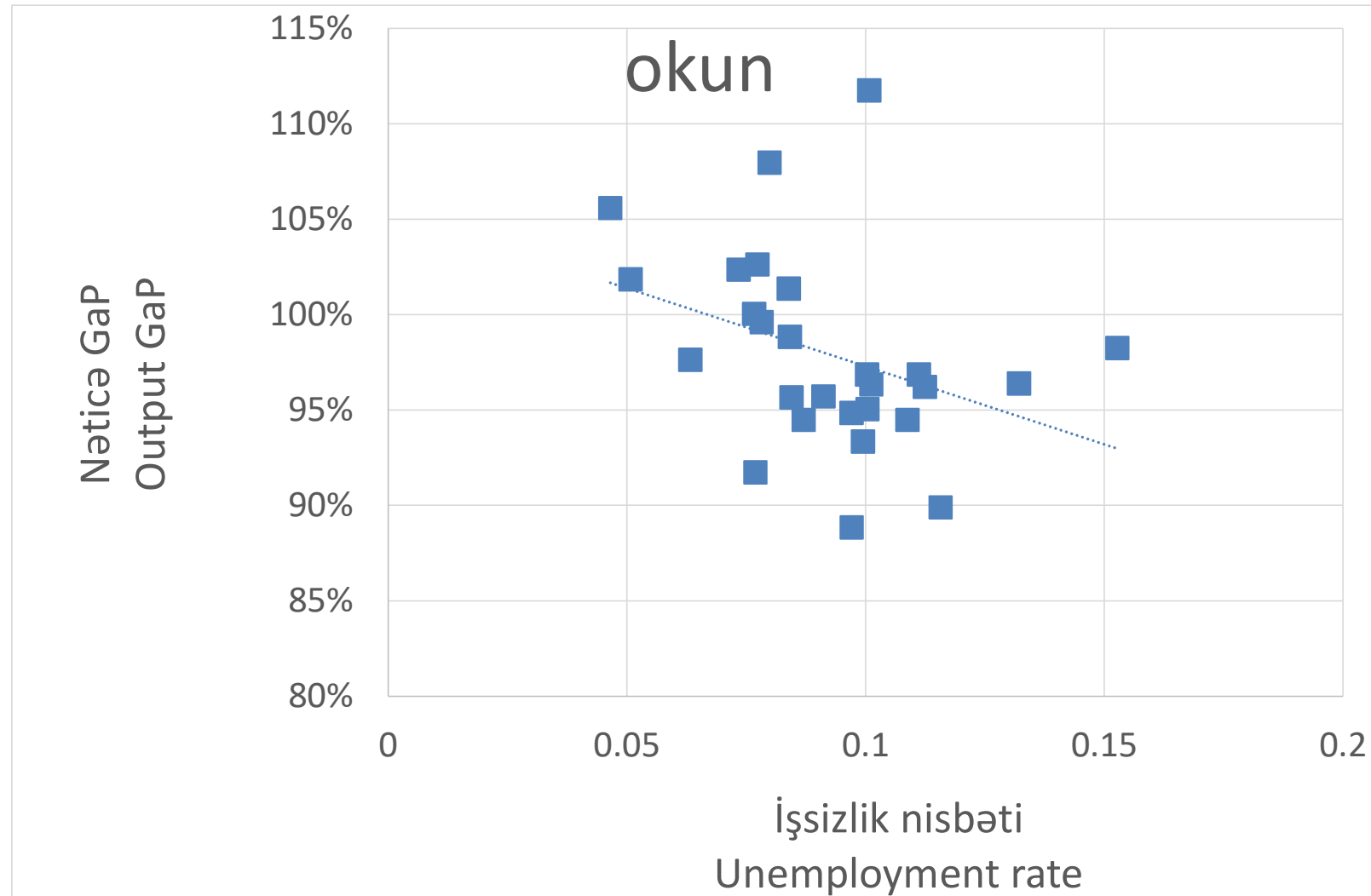
(b) Germany



Real GDP Growth



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The macroeconomic policy debate

- Classical economists
 - Adam Smith, Ricardo, J. Stuart Mill, David Hume
 - Self correction (invisible hand)
 - Laissez-Faire
- Keynes (1936)
 - The price mechanism fails
 - Sticky prices
 - Coordination failures
 - No self-correction in the short-run
 - Role of aggregate demand in determining output
 - Role of government in stabilizing the economy

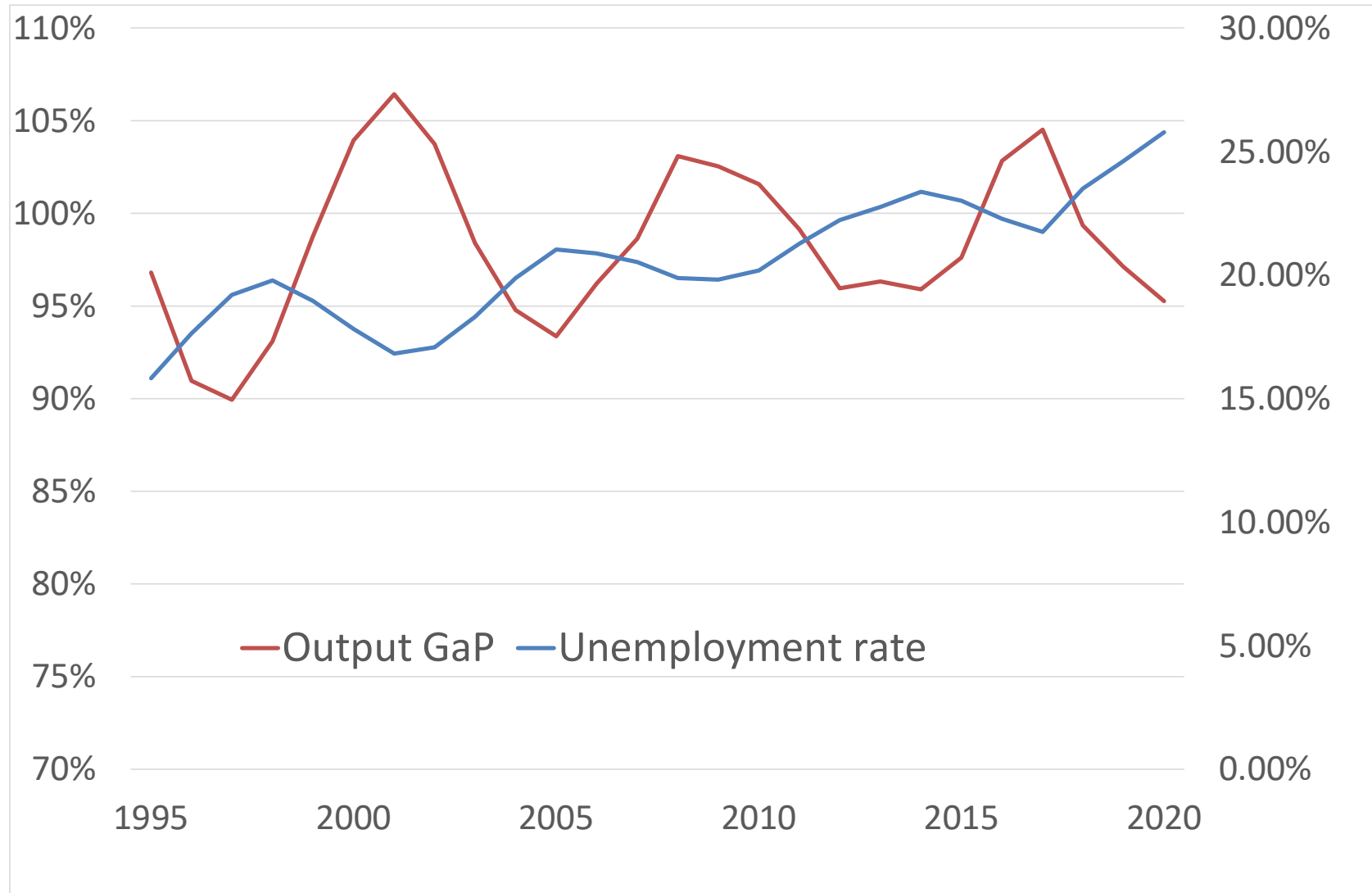
The macroeconomic policy debate

- Monetarists, new-classical (fresh-water)
 - Governments fail, too
 - Information failures, incentives in policy making
 - Rules rather than discretion
- Mainstream
 - Stabilization policies may help keep the economy close to full employment
 - Institutions (rules) needed to raise credibility and avoid incentive problems

Macroeconomic Policies

- Long run: Supply side
 - Government policies to increase the long run capacity of the economy
 - Reduce inefficiencies, distortionary taxation, wrong incentives, the influence of interest groups
 - Ensure (financial) sustainability
- Short-run: Aggregate demand management
 - Fiscal policy: manipulates government expenditures or taxes to influence the volume of national spending
 - Monetary policy: influencing interest rate or exchange rate to influence private spending on goods and services

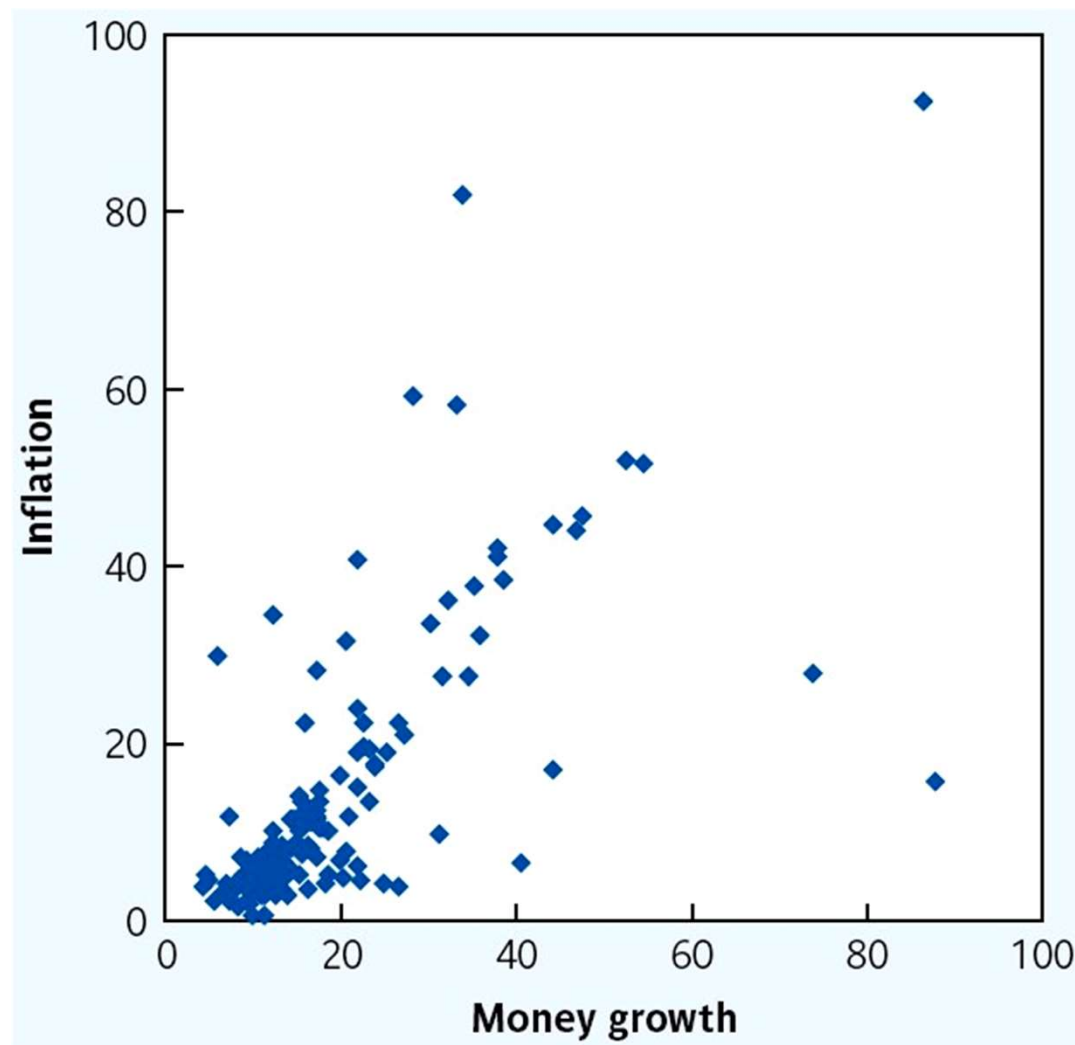
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Inflation in the Long-run

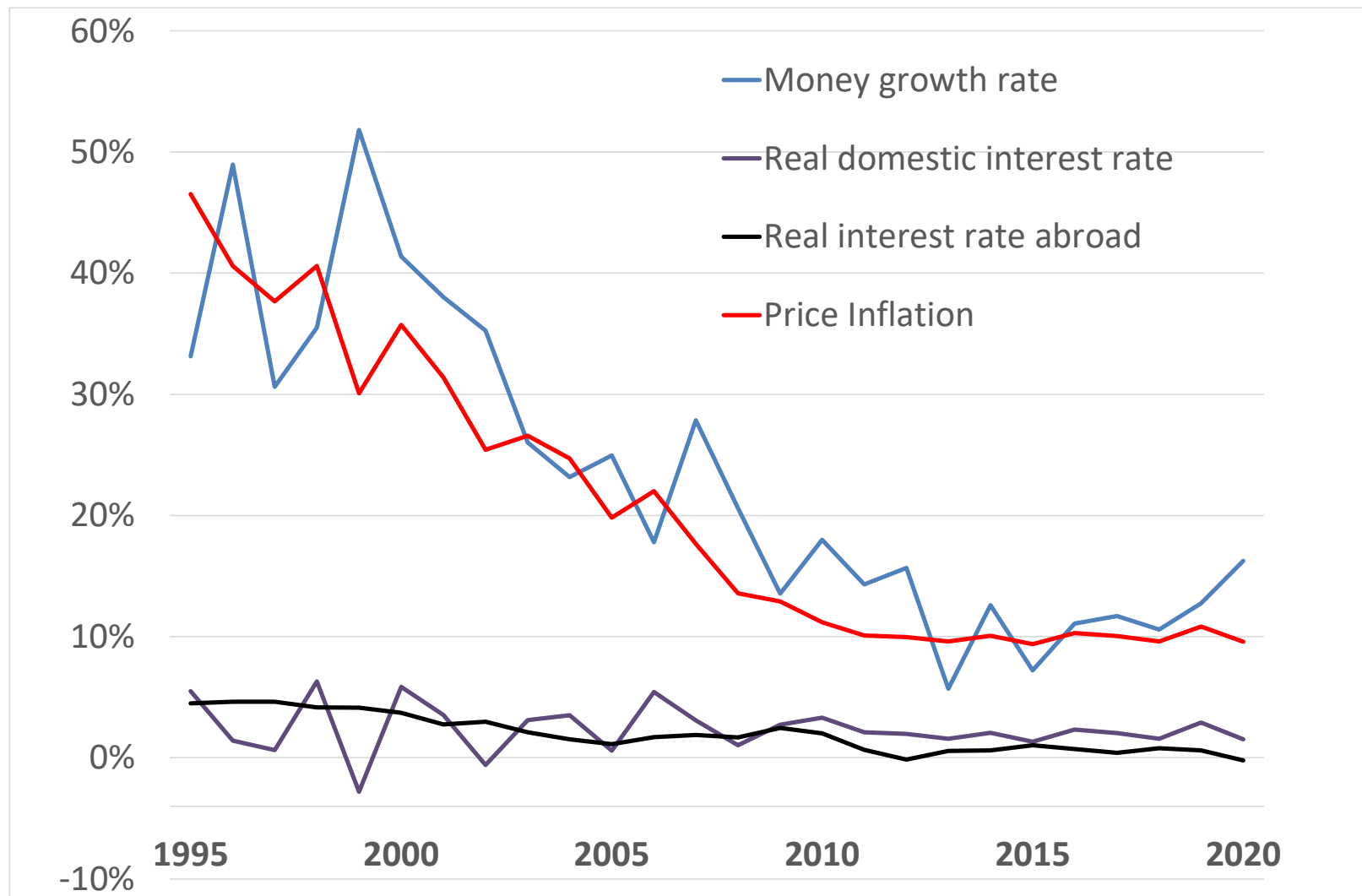
- Is there a relationship between money and inflation ?
- Is inflation always and everywhere a monetary phenomenon?

Money and inflation in the Long run



Money Growth and Inflation, 1975-2006

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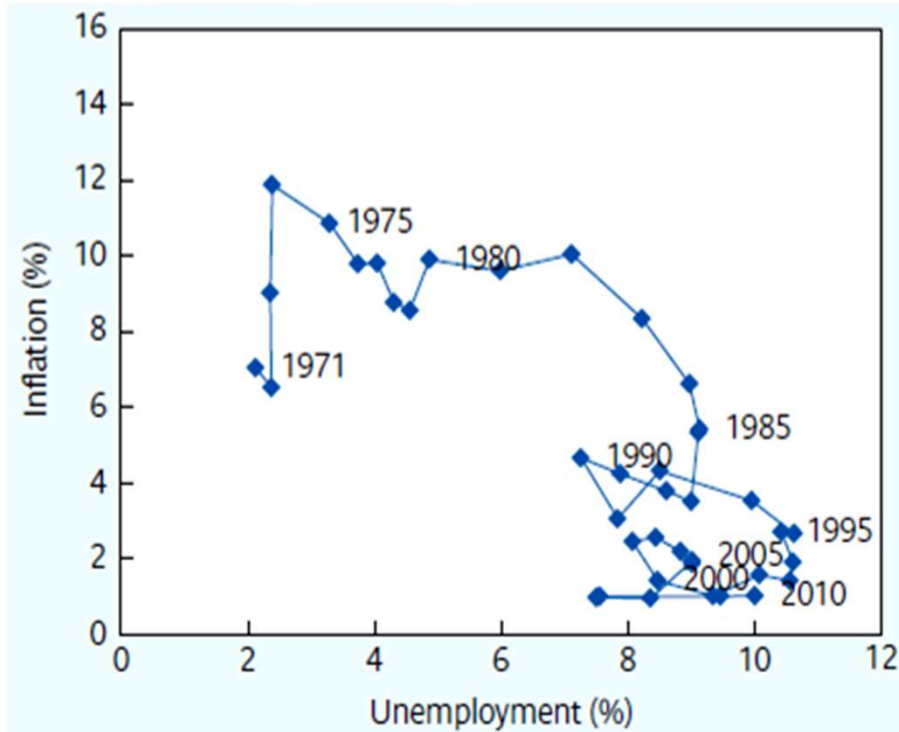


Inflation in the short-run

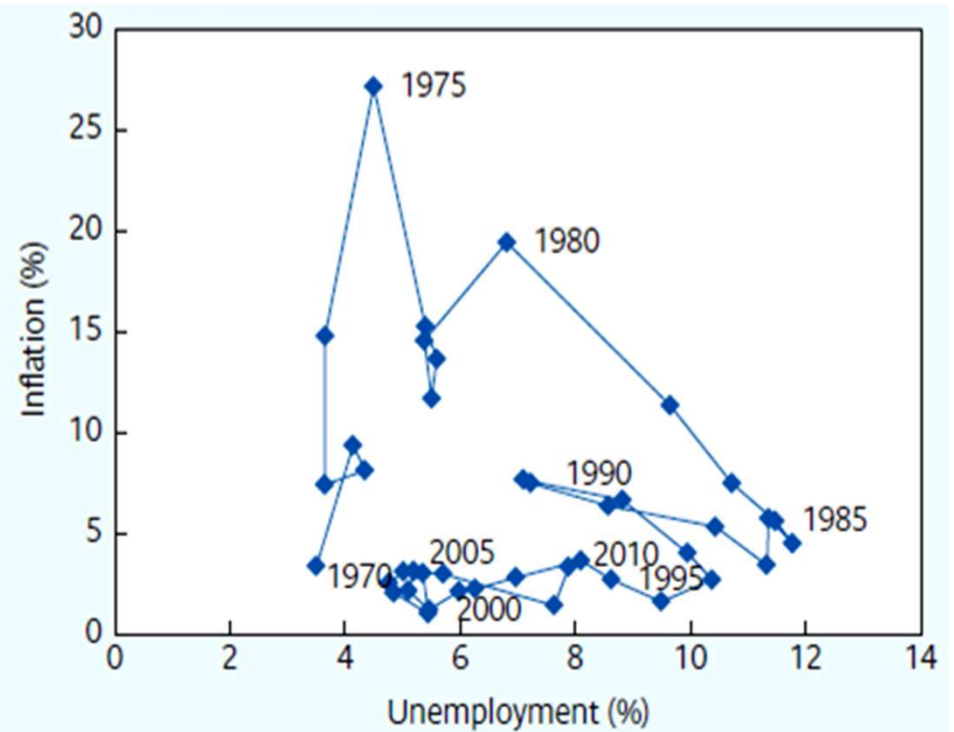
- How do prices approach their long run level?
- Is there a trade-off between inflation and unemployment?
- Can this trade-off be explored by policymaking?
 - In the short-run
 - In the long run?

Phillips curves

(a) Eurozone (1971-2010)

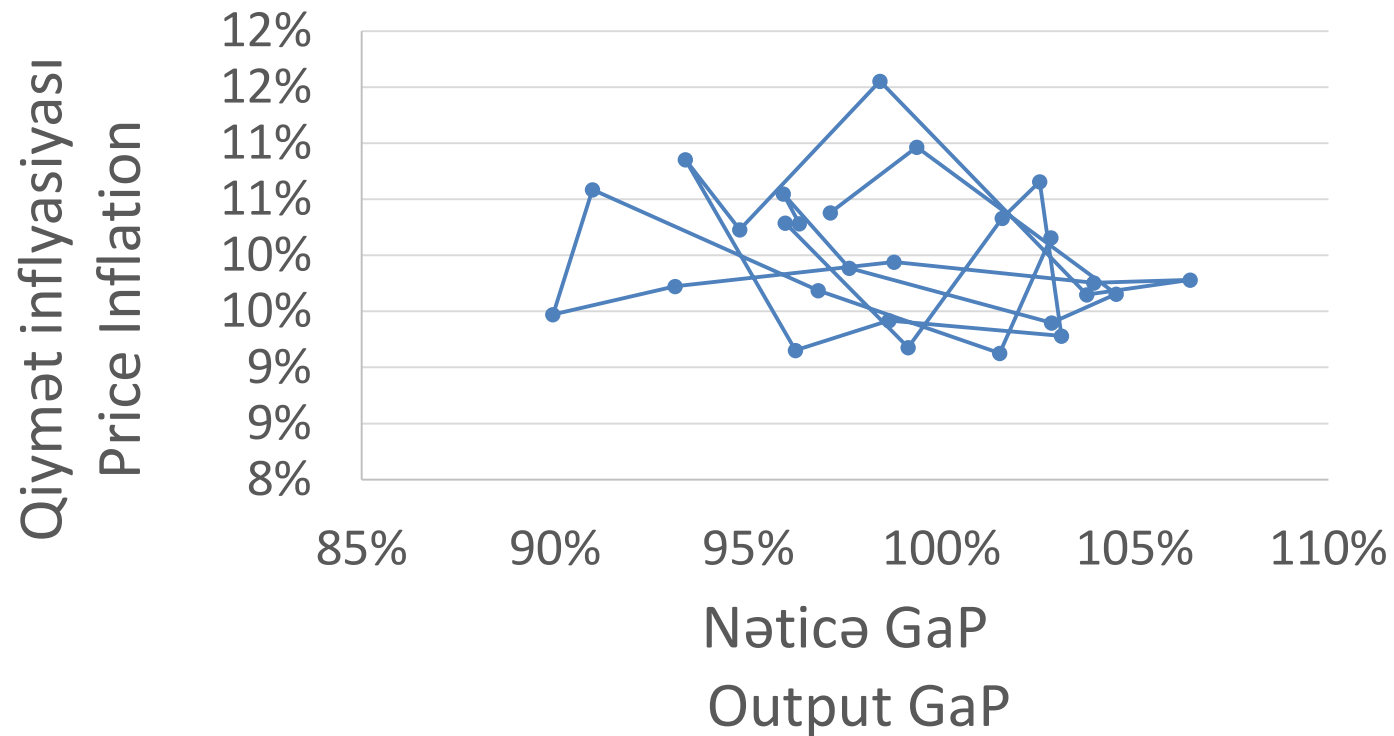


(b) UK (1970-2010)



Phillips curve

Price Inflation and output gap

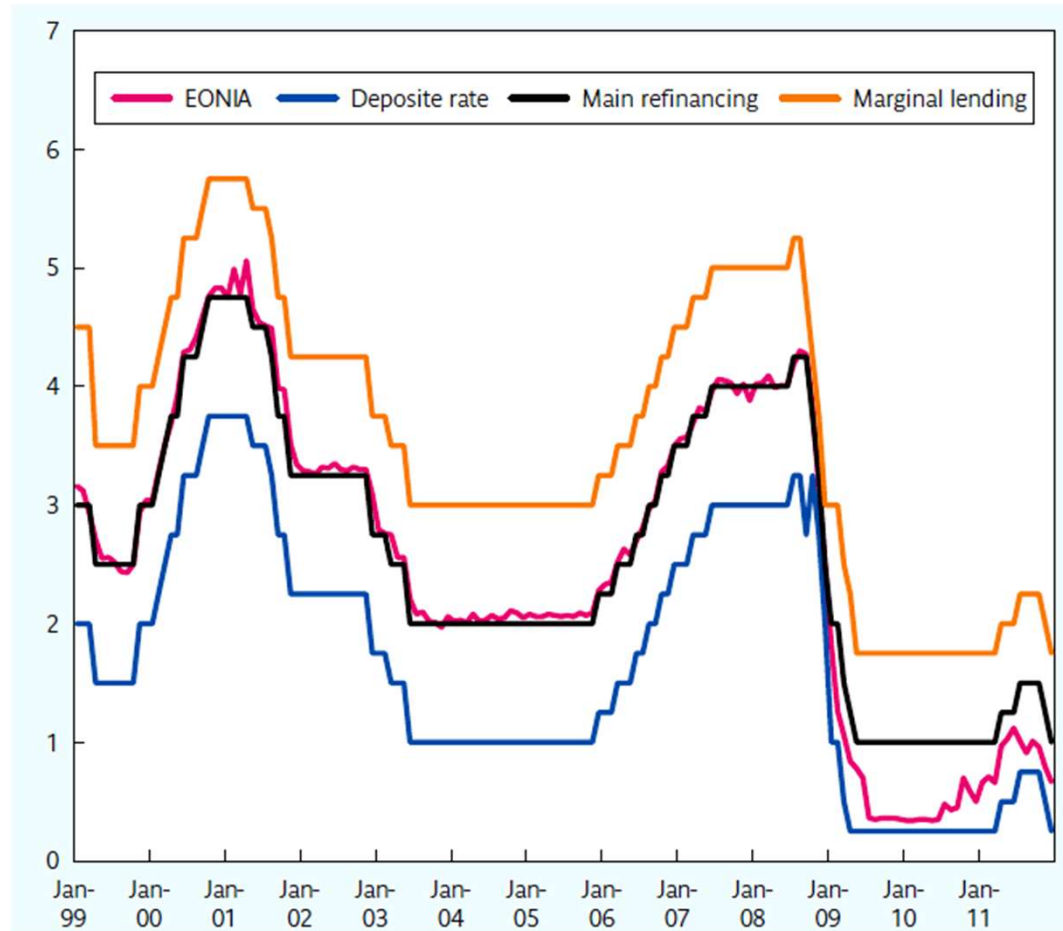


Rules versus discretion

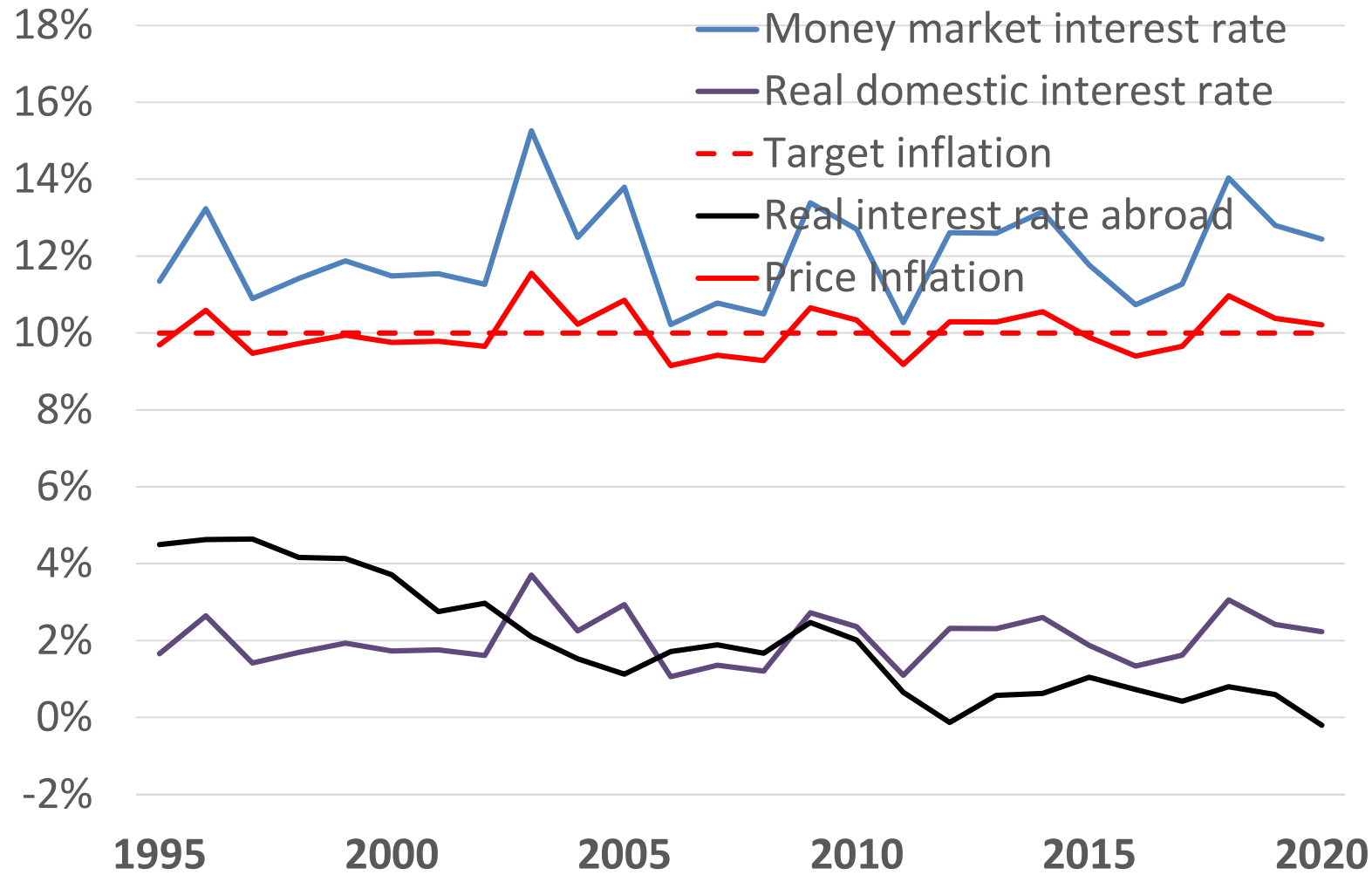
- Can fiscal and monetary policies be destabilizing?
- How shall fiscal and monetary policies be formulated?
 - Rules?
 - Discretion?

Monetary policy

ECB Interest Rates (Jan 1999 - Dec 2011)



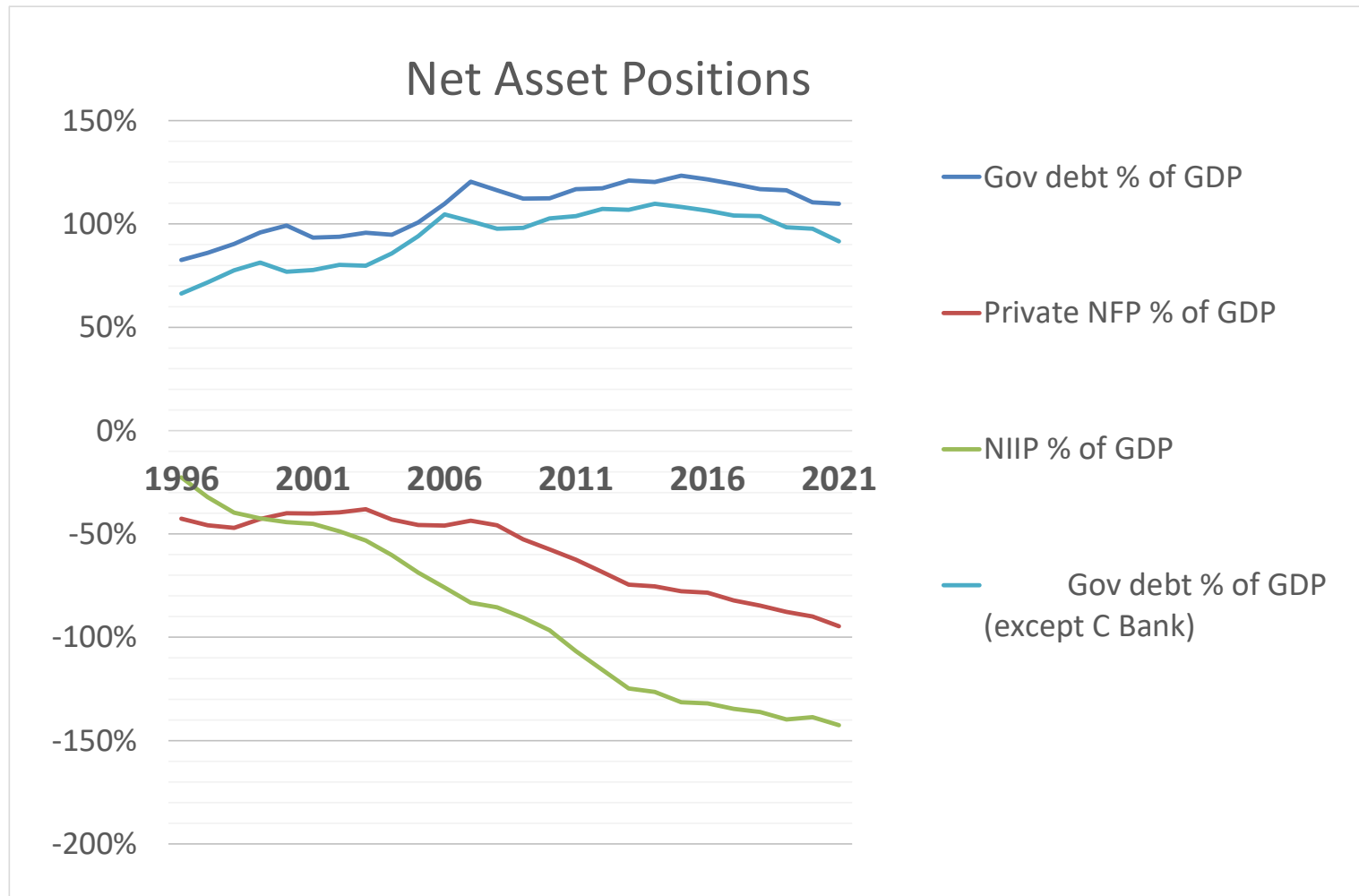
Taylor rule



Financial stability

- What are the risks of high debt?
 - Government
 - Banks
 - Private
- Should governments prevent excess leverage?

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Course aims

- The aim of this course is to motivate the student with the use of simple analytical tools to discuss macroeconomic problems and the scope for government intervention.
- The course is divided in three main blocks:
 - long-run growth and its determinants;
 - business cycles, and the role of monetary and fiscal policies.
 - Financial programming
- The applied nature of this course will materialize with a case-study assignment, where the student is requested to prepare a macroeconomic scenario.

Positive and normative

- Macroeconomic analysis and policies are closely linked
- Positive economics:
 - Explain what is happening
 - Why is growth decelerating?
 - Why are governments intervening as they are?
- Normative economics
 - Policy recommendations
 - Involves a judgement
 - What the government should do?
 - In light of which criteria?
- Intervention
 - Not enough to argue that the market fails
 - Must be shown that the government can do better

Course content

Economic Growth

- The fundamentals: Solow, AK
- Creative destruction
- Government, distortions, corruption

Business Cycles

- Macroeconomic equilibrium in the short-run
- Inflation and unemployment
- Aggregate demand and aggregate supply
- Money, credit and banking

Financial Programming:

- Macroeconomic data, budget constraints, consistency
- Macroeconomic Indicators
- Government debt
- Financial Programming

Bibliography

The course does not follow a single book. The main references of the course will be:

- [BW] Burda, M. and C. Wyplosz, 2013. Macroeconomics: a European text, Oxford University Press, 6th edition
- [GM] Mankiw, G., 2010. Macroeconomics, Worth, 7th edition.
- [FM] Mishkin, F., 2013. The economics of money, Banking, and Financial Markets, 10th ed. Pearson.

Some topics will also draw on the following textbooks and notes:

- [LN] Lecture notes “[Introduction to economic growth: a primer/student’s guide](#)”.

Assessment

1. Regular exam period

- Mid-term (10/4/2024, 14h): 35%
- Case study: 35%
- Final exam (27/5/2024, 13h30): 30%

2. Resit exam period

- Case study: 35%
- Final exam (17/6/2024, 13h30): 65%

3. Grade Improvement in either period.

Best of:

- A. Final exam 100%
- B. Case study 35%, Final exam 65%

Other

Office hours:

- Wednesday 17:00 (on request)

Contacts:

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Resources:

<https://mlebredefreitas.wordpress.com/teaching-materials/macroeconomic-policies/>

Password for slides: miro