

ECON0016: Macroeconomic Theory and Policy: The Open Economy and Crises

Lecturer: Wendy Carlin, Drayton House, Room 216
Outline for Term 2, Spring 2021

This term's part of ECON0016 extends the analysis of business cycles to the open economy for flexible and fixed exchange rate regimes. Applications include oil shocks, the global financial crisis, the Eurozone sovereign debt crisis, and the COVID-19 crisis. You will frequently need to make use of the closed economy analysis covered in the autumn term. All course material is on the ECON0016 Moodle page.

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Lectures: Thursday 11-1. Online. Livestream and recordings will be uploaded to Moodle.

Practical Lectures: Wednesdays 9-10 See timetable. Online. Livestream and recordings will be uploaded to Moodle.

Tutorial Classes: See Course Timetable for details. Submission will normally be due by 23.55 on the Friday night in the week before the class takes place.

Textbooks

The main text to be used this term: Wendy Carlin and David Soskice (2015), *Macroeconomics: Institutions, Instability and the Financial System*. Oxford: OUP.

The text used in ECON0002, the e-book, *The Economy* (www.core-econ.org) is useful background – read Units 9, 13-17 for revision.

You will be expected to have a firm understanding of the 3-equation model set out in Chapters 1-4 of Carlin and Soskice (2015) as we begin the study of inflation-targeting in the open economy.

Olivier Blanchard (2016), *Macroeconomics* – this uses a similar framework to the one we use but is simpler; also Olivier Blanchard, Alessia Amighini And Francesco Giavazzi (2013) *Macroeconomics: A European Perspective* is useful but note that it still uses IS/LM and AD/AS, which Blanchard has given up in his new edition.

In addition, you may find some of the chapters in the following helpful (use the index as different editions are available):

Manfred Gaertner (2016), *European Macroeconomics* 5th edition

Paul de Grauwe, *The Economics of Monetary Union* Any recent edition.

Details of Core and Optional Readings are on the Moodle page

Course Outline (T = week with tutorials; P = week with a practical lecture)

Week	Lecture topic
20	Introduction <ul style="list-style-type: none"> • Globalization in trade and capital markets • Macro policy making in the open economy • Open economy elements of crises Model-building: financial markets, exchange rates and the UIP condition
21 (T Term 1)	Supply-side, demand-side and real exchange rates Model-building: The medium-run model in the open economy (AD-ERU model)
22 T PS1	Inflation-targeting in the open economy Model-building: Extending the inflation-targeting model to include the foreign exchange market (3-equation model)
23 T PS2	Inflation-targeting, exchange rate overshooting & volatility Model-building: Using the 3-equation model
24 T PS3 P	The real exchange rate, external balance and the demand side Model-building: Competitiveness, multipliers, Marshall-Lerner condition, terms of trade
25 RW	
26	The real exchange rate, inflation and the supply side (the AD-BT-ERU model) Model-building: AD-BT-ERU model and policy analysis
27 T PS4 P	All about oil: macro analysis of oil shocks and natural resource windfalls Model-building: Oil shocks in the AD-BT-ERU model; Applying the PIH to the open economy
28	External imbalances Model-building: 2-bloc model with inflation targeting central banks
29 T PS5 P	Economics of a Common Currency Area – the Eurozone’s first decade, the sovereign debt crisis and COVID-19 Model-building: Fixed exchange rates, stabilization, governance
30 T PS 6	Final lecture - the financial crisis, the great recession, secular stagnation, climate change COVID-19.