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| <b>ECON0016: Macroeconomic Theory and Policy:<br/>The Open Economy and Crises</b> |
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**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.

**Contact in UCL Library:** Kieron Jones [kieron.jones@ucl.ac.uk](mailto:kieron.jones@ucl.ac.uk)

**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](http://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* 5<sup>th</sup> 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               | <b>Introduction</b> <ul style="list-style-type: none"> <li>• Globalization in trade and capital markets</li> <li>• Macro policy making in the open economy</li> <li>• Open economy elements of crises</li> </ul> Model-building: financial markets, exchange rates and the UIP condition |
| 21 (T<br>Term 1) | <b>Supply-side, demand-side and real exchange rates</b><br>Model-building:<br>The medium-run model in the open economy (AD-ERU model)  |
| 22 T PS1         | <b>Inflation-targeting in the open economy</b><br>Model-building:<br>Extending the inflation-targeting model to include the foreign exchange market (3-equation model)   |
| 23 T PS2         | <b>Inflation-targeting, exchange rate overshooting &amp; volatility</b><br>Model-building:<br>Using the 3-equation model   |
| 24 T PS3<br>P    | <b>The real exchange rate, external balance and the demand side</b><br>Model-building:<br>Competitiveness, multipliers, Marshall-Lerner condition, terms of trade  |
| 25 RW            |  |
| 26               | <b>The real exchange rate, inflation and the supply side (the AD-BT-ERU model)</b><br>Model-building:<br>AD-BT-ERU model and policy analysis   |
| 27 T PS4<br>P    | <b>All about oil: macro analysis of oil shocks and natural resource windfalls</b><br>Model-building:<br>Oil shocks in the AD-BT-ERU model; Applying the PIH to the open economy  |
| 28               | <b>External imbalances</b><br>Model-building:<br>2-bloc model with inflation targeting central banks   |
| 29 T PS5<br>P    | <b>Economics of a Common Currency Area</b><br>– the Eurozone’s first decade, the sovereign debt crisis and COVID-19<br>Model-building:<br>Fixed exchange rates, stabilization, governance  |
| 30 T PS 6        | <b>Final lecture - the financial crisis, the great recession, secular stagnation, climate change COVID-19.</b>   |