

**University College London
Department of Economics**

ECON0017 Macroeconomic Theory and Policy: The Closed Economy

Please note this is Part 1 of a full year course ECON0016 Macroeconomic Theory and Policy.

The course is structured around a number of questions:

- what causes business cycles?
- what should policy do to smooth the business cycle, and what can it do?
- what determines the natural rate of unemployment, and what can policy do to change it?

The course will equip students with the theoretical models they need to understand contemporary debates about economic policy.

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 Econ0001, the e-book, *The Economy* (www.core-econ.org) is useful background – read Units 9, 13-17 for revision.

Olivier Blanchard, Alessia Amighini and Francesco Giavazzi (2010) *Macroeconomics: A European Perspective* *Macroeconomics* is also useful. In addition, you may find some of the chapters in the following helpful (use the index as different editions are available):

Manfred Gaertner, *European Macroeconomics* (2009)

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

Typical methods of assessment:

100% Open-book coursework assessment

Provisional Course Outline:

Week	Lecture topic
6	Introduction <ul style="list-style-type: none"> • What is the macro about • Why should we study macro Demand side part 1: A microfounded model of consumption: the permanent income hypothesis.
7	Demand Side Credit constraints. A microfounded model of investment: Tobin's q. The IS curve.
8 T	Supply Side An imperfectly competitive model of the labour market: price setting, wage setting and the Phillips curve.
9 H	Macroeconomic Dynamics A microfounded model of monetary policy: the MR curve. Using the 3 equation model.
10 P T	Expectations and the effectiveness of policy Different ways of forming expectations and their implications for policy. An empirical test of policy effectiveness,
11 RW	READING WEEK
12 P	Monetary Policy Controlling inflation: the Thatcher disinflation. The modern monetary framework: independent central banks and Taylor rules. The future of monetary policy.
13 T	Fiscal Policy Automatic stabilisers; active stabilisation; debt dynamics and sustainability.
14	Finance and the macroeconomy Banking, the financial sector, bubbles, and the link between finance and the macroeconomy.
15 T H	The global financial crisis The zero-lower bound on nominal rates. A narrative of the "crisis"; understanding events via the three equation model.
16 T P	Final lecture - the consequences of the crisis / course overview Balance sheet recessions; government debt crises.

P: stands for practical lectures

T: stands for tutorials

H: stands for homework (due Friday in the corresponding week)