

**University College London
Department of Economics**

**ECON0018 Macroeconomic Theory and Policy:
The Open Economy and Crises**

Please note this is Part 2 of a full year course ECON0016 Macroeconomic Theory and Policy.

This course 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.

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.

Typical methods of assessment

100% Open-book coursework assessment

Provisional Course Outline

(T = week with tutorials; H = week with homework due at the end of the week)

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	Supply-side, demand-side and real exchange rates Model-building: The medium-run model in the open economy (AD-ERU model)
22 T	Inflation-targeting in the open economy Model-building: Extending the inflation-targeting model to include the foreign exchange market (3-equation model)
23 H	Inflation-targeting, exchange rate overshooting & volatility Model-building: Using the 3-equation model
24 T	The real exchange rate, external balance and the demand side Model-building: Competitiveness, multipliers, Marshall-Lerner condition, terms of trade
25 Reading Week	
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	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 H	External imbalances Model-building: 2-bloc model with inflation targeting central banks
29 T	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
	Final lecture - the financial crisis, the great recession, secular stagnation, climate change COVID-19.