



Course title:	Macroeconomic Foundations of Economic Policy (Modern Challenges)
Department:	PE-4, Center for Social Sciences
Course code:	F4-MEF
Erasmus subject code:	0311
Number of contact hours:	45
Course duration:	one semester
ECTS credits:	6
Course description:	

The purpose of the course is to study several mainstream macroeconomic models, which are instrumental in explanation of most important economic policy issues. Students are expected to be able to: (i) understand of the supply and demand law on goods and asset markets, (ii) recognize short- and long-term determinants of the interest rate and nominal (real) exchange rates, (iii) interpret such policy issues, as the strength of fiscal policy multipliers, monetary transmission channels, real and nominal exchange rate effects, labour market developments etc., (iv) recognize importance of intertemporal mechanisms of economic policy, (v), understand basic microeconomic foundations behind macroeconomic relationships, (vi) explain current developments in the global economic environment (for example, recent acceleration of inflation in 2022-2023 and resulting stabilisation policies, global imbalances between the USA and surplus countries, pros and cons for supply-side policies, the fiscal-monetary mix under extremely low interest rate and high public debt, effectiveness of fiscal stimuli and fiscal austerity measures, policies towards migration, reasons behind the rise of populism in many industrial countries etc.).

Design of the course is prepared with the aim to cover the most important issues within several major fields of economic policy. Main introductory topics cover growth and balance-of-payments (BOP) accounting, saving and consumption decisions in an open economy, and foreign trade imbalances. Basic explanations of the saving-investment balance are discussed.

Determinants of economic growth in the long run are studied by the neoclassical growth models (the Solow model) and endogenous growth models. Theoretical framework of the New Economic Geography models is outlined, with explanation of agglomeration effects being provided. Policy implications of the overlapping generations model (OLG) are outlined. Then various issues of contemporary fiscal and monetary policy debate are discussed within the province of IS-LM-BP, AD-AS and Taylor-Romer models, with benefits and potential risks of capital flows and international debt accumulation being analyzed.



Modern versions of the Phillips curve are discussed in the context of contemporary monetary policy debates. Basic features of New Keynesian and New Classical models are explained, with a focus upon the concept of rational expectations. Several monetary models of exchange rate determination are considered. Stabilization policies are considered in connection to business cycle theories and unemployment problems. Special attention is given to fiscal and monetary policy rules.

Labor market policies are explained within the context of domestic and international migration flows. In this respect, several facets of educational policies are considered, as vertical and horizontal mismatches or job search strategies. Explanations of differences in the unemployment rate between the North and South European countries are provided. In the context of labour market relationships, a brief overview of trade policies is provided, based on the latest developments within the US-China-EU trade triangle.

Finally, a discussion of the role of government in a modern economy is supposed to cover such economic policy issues, as the lessons of the 2008 world economic crisis and the COVID-19 pandemic. In a more general context, competing explanations of the Great Recession and the Secular Stagnation phenomena are discussed, with a focus upon the likely effects of the zero-lower bound (ZLB) of interest rate and the so-called unconventional fiscal and monetary policies.

Literature:

Blanchard, O., Amilghini, A., Giavazzi, F. (2010). *Macroeconomics: A European Perspective*, Prentice Hall. 2010.
Begg, D., Fischer, S., and Dornbusch, R. (2008). *Economics*, 8th edition, McGraw-Hill Publ. Comp.

Handouts containing 60 to 70 slides are to be provided for every of 14 lectures. Selected articles from *The Economist* and Bloomberg websites.

Course type:

Assessment method:

Two mid-term quizzes and two mid-term multiple choice tests

Contact person:

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Deadline for application:

15th of January