**Macroeconomics and Public Finance**

*Winter Trimester 2020/2021*

1. **Course description**

This is one of the few courses taught at the CEU based on government policy practice. It is focused on designing and implementing (macro)**economic policy** in an open market economy exposed to constant internal and external shocks. Successful economic policy in an open economy is severely constrained by the expected and experienced responses of external and internal market players: other governments, banks, enterprises, households, etc. Their behavior needs to be anticipated and taken into account in economic and social policy. Governments trying to achieve maximum economic growth in a financially, socially and ecologically sustainable manner need to preserve overall financial and, especially, **fiscal equilibrium**. It is always an absolutely necessary although far from sufficient condition for long-term growth and societal welfare.

One of the most important factors of strong and sustainable economic growth is keeping **external** (national) and **internal** (public) **debt** at a manageable level. But what does it mean? Of course, it depends on a wide variety of factors and may be very different from one country to the next. The best way to understand external financial sustainablity is to analyze the **flow of income** among sectors in an open economy; the evolution of **saving-investment** balances of the various internal sectors and that of the whole national economy with the outside world. The most important analytical tool for that is the **balance of payments** (BoP). Students are expected to understand the structure of the BoP and use it for macroeconomic policy analysis in their own countries and elsewhere.

Economic policy has three components: **monetary, fiscal and income** policy. While the course offers only an overview of monetary and income policy, it gives a detailed analysis of all relevant fiscal issues. Distinction is made between **current and capital** budgets and the importance of a **balance sheet** of the central and general government is emphasized. **Fiscal federalism**, i.e. the role subsovereign governments is to be explained. Political, administrative and financial division of labor among various levels of government will be analyzed.

Fiscal affairs analysis will touch both sides of the budget. On the income side, detailed analysis of the **tax system** is to be had, asking the question if there is anything like an ideal or at least optimal tax system. Transparency, simplicity, stability and societal acceptability, based on concepts of fair burden-sharing and social justice, will be highlighted. On the expenditure side, detailed analysis of **public administration**, **education, pension and health care** provision is offered. In case of the latter, distinction will be made between **parametric** and **paradigmatic** reforms. In all these areas directions and contents of both types of structural reforms will be analyzed with potential alternatives in public policy.

1. **Learning outcomes**

Students are expected to understand the content, possibilities and constraints of (macro)economic policy in an open economy, the unavoidable trade-offs between ultimate economic policy objectives, the potential effectiveness of the major economic policy tools and instruments and be able to design a consistent a coherent economic policy program for their own countries

1. **Pre-requisites**

Adequate understanding of basic concepts and analytical instruments of macroeconomics is expected. Students are advised to complete „Economic Analysis for Public Policy” course in the fall trimester.

1. **Assessment**
2. Regular and active participation in class discussion - 10%
3. Midterm assignment – short public policy paper – 20%
4. Final exam containing both short and long questions – 70%

**Lajos Bokros**, professor of economics and public policy

School of Public Policy, Central European University, Vienna, Austria