**Economic Analysis for Public Policy I**

# Instructor:

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**Office hours:**

MK: Tuesdays, 4-5pm

MD:

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**Course description**

Macroeconomics is a branch of Economics that studies the performance, structure, and behavior of a national or supra-national (e.g. EU) economy as a whole. Macroeconomic developments are a central theme of policy debate around the globe. This course provides a sound understanding of macroeconomics for students wishing to become proficient civil servants, policy experts, or analysts in the field of public policy. It will equip the students with an analytical toolset enabling them to understand and study macroeconomic processes, relationships between aggregate economic variables, as well as the organization of the financial sector and national accounts. Throughout the course, specific public policy issues will be studied with the objective to motivate and demonstrate the pertinence of macroeconomic analysis for sound public policy making. This approach will provide the students with a broad understanding of macroeconomic principles as well as enable them to profoundly analyze specific macroeconomic policy issues, such as fiscal and monetary policy, stabilization policy, unemployment, inflation, or economic growth. Considerable effort will be made to make the material accessible to students with diverse backgrounds and without prior knowledge of economics.

**Objectives and outcomes**

The course fosters a comprehensive understanding of macroeconomic principles and their repercussions for sound policy making. By the end of the course, a successful student will be equipped with an effective toolset to analyze public policy issues and proposals from the macroeconomic perspective. Students shall improve their analytical and argumentative skills through interactive lectures fostering theoretical skills as well as their policy applications through in-class policy debates.

# Course Readings

Required readings for all students are primarily based on:

* Mankiw, N. Gregory. Macroeconomics, Worth Publisher, 6th or later edition (hereafter Mankiw)
* Lecture notes (including any material not covered in GM or CORE)

Supplementary material for advanced students (not required):

<http://core-econ.org/>

Miles, David and Andrew Scott, 2004. Macroeconomics: Understanding the Wealth of Nations, John Wiley and Sons, 2nd edition

Borjas, George, 2008. Labor Economics, McGraw-Hill, 4th edition

and a selection of articles to be announced.

GM is available online. CORE material is available upon registration at <http://core-econ.org/>. Many copies of the GM book (6th edition, though) are available in CEU Library; the book is also available online.

# Grading

Evaluation will be based on the ability to make use of the material covered in the course and draw on the relevant theory to analyze policy issues.

The course grade will be determined as a weighted average of the following components:

 Policy Brief – 15%

 Final Exam – 60%

 Macroeconomic Policy Debate – 15%

 Participation in Departmental Seminars 10%

There will be one Policy Brief, due in Week 9. Topics will be distributed by Week 2. The Final Exam will be graded based on 0-100 scale. Practice problem sets will be distributed during the course (every third week, to be discussed during the wrap-up session) to facilitate preparation for the exam. These will not be graded. Macroeconomic Policy Project guidelines to be circulated separately.

* Attendance is mandatory and will be checked.
* Given the concentration of material, you are strongly encouraged to read the assigned chapters prior to lectures.
* Exam date will be announced in due course
* Make-up for the exam/assignments will be allowed only if there is a valid university excuse
* Assignments and assignment deadlines will be announced in due course. Assignments submitted late will be graded down by 50%. Submitting each assignment is a prerequisite for passing the course.
* The policy of zero tolerance to academic dishonesty (defined in the student manual and in CEU’s code of ethics) will be strictly applied.
* It is strongly recommended that students take every assignment and exam seriously. There is no chance to make up for forfeited points.
* It is the student’s responsibility to understand these rules and consult the instructor in case of any doubts; as well as in case of any problems with understanding the studied topics.

##### Course outline (12 weeks)

1. Introduction into Markets (MD)
2. Market Dynamics and Welfare (MD)
3. Market Interventions and Policy Tools (MD)
4. Introduction into Macroeconomic Analysis (MK)
5. Money and Inflation (MK)
6. The Open Economy (MK)
7. Policy Lab (MD, MK, TA)
8. The Labor Market (MK)
9. Economic Growth and Living Standards in the Long-Run (MK)
10. The Business Cycle (MK)
11. Stabilization Policy (MK)
12. Macroeconomic Policy Project (MK, MD)

**Week 1 – Introduction into Markets**

Required:

 Mankiw, Chapter “The market forces of supply and demand” (all)

**Week 2 – Market Dynamics and Welfare**

Required:

 Mankiw, Chapter “Elasticity and it’s applications” (pp. 72 — 89 and 95 — 99)

 Mankiw, Chapter “Consumers, producers and the efficiency of markets” (pp. 169 — 183)

Further:

 Christiane Baumeister and Lutz Kilian. (2016). “[Forty years of oil price fluctuations: Why the price of oil may still surprise](https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.30.1.139),” *Journal of Economic Perspectives*, 30: 139 — 160 (focus on pages 139 — 148 ).

**Week 3 – Market Interventions and Policy Tools**

Required:

 Mankiw, Chapter “Supply, demand and government policies” (pp. 187 — 199)

 Mankiw, Chapter “The tax system and the costs of taxation” (pp. 203 — 210)

Further:

 Diamond R., McQuade T. & Qian F. (2019). “[The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco](https://www.aeaweb.org/articles?id=10.1257/aer.20181289)*,*" *American Economic Review,* 109: 3365 — 3394.

**Week 4 – Introduction into Macroeconomic Analysis**

Required:

 Mankiw, Chapter “The Science of Macroeconomics”

 Mankiw, Chapter “The Data of Macroeconomics”

Policy application:

 Understanding the data: The seasonal cycle and seasonal adjustment

**Week 5 – Money and Inflation**

Required:

 Mankiw, Chapter “The Monetary System: What It Is and How It Works”

 Mankiw, Chapter “Inflation: Its Causes, Effects, and Social Costs”

Policy application:

 Thomas Sargent, “The Ends of Four Big Inflations”, 1982

 (<http://www.nber.org/chapters/c11452.pdf>)

 Marek Dambrowski, “Central banks have been too slow in responding to higher inflation”, 2022

(https://www.bruegel.org/comment/central-banks-have-been-too-slow-responding-higher-inflation)

**Week 6 – The Open Economy**

Required:

 Mankiw, Chapter “The Open Economy”

Recommended:

 Borjas, Chapter 13

**Week 7 – Policy Lab**

Policy brief workshop

**Week 8 – The Labor Market**

Required:

 Mankiw, Chapter “Unemployment and the Labor Market”

Recommended:

 Miles and Scott, Chapter 3

**Week 9 – Economic growth and living standards in the long-run**

Required:

Mankiw, Chapter “Capital Accumulation as a Source of Growth”

Mankiw, Chapter “Population Growth and Technological Progress” (selected sections)

Recommended:

**Week 10 – The Business Cycle**

Required:

 Mankiw, Chapter “Introduction to Economic Fluctuations”

 Mankiw, Chapter “Aggregate Demand I: Building the IS–LM Model”

**Week 11 – Stabilization Policy**

Required:

 Mankiw, Chapter “Aggregate Demand II: Applying the IS–LM Model”

 Mankiw, Chapter “Alternative Perspectives on Stabilization Policy” (selected sections)

##### Week 12

Macroeconomic Policy Project: Simulated policy debate (if the pandemic situation permits)