**Macroeconomics and Public Policy**

# Instructors: Martin Kahanec, (MK), [KahanecM@ceu.edu](mailto:KahanecM@ceu.edu)

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**Course code:** DOPP5665

**No. of credits (US/ECTS):** 2 US (4 ECTS)

**Academic year and term (fall/winter/spring):** 2023-24, Winter

**Course level: MA**

**Course type (Mandatory, Mandatory Elective, or Elective): Mandatory**

**Office hours:**

MK: Wednesdays, 3-4pm

DT: TBA

**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 debates 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 markets and market dynamics, 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 market interventions, 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 the principles of market economics and macroeconomics, as well as 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, 11th edition (hereafter Mankiw\_Macro)
* Mankiw, N, Gregory and Mark P. Taylor, Economics, Cengage Learning, 3rd edition (relevant chapters online, hereafter MankiwTaylor\_Economics)
* Lecture notes (including any material not covered in the required readings)

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.

Many copies of the Mankiw Macro book (6th edition, 11th edition pending) are available in CEU Library; the book is also available online. CORE material is available upon registration at <http://core-econ.org/>.

# 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 Lab – 30%

Final Exam – 50%

Participation in the online Forums and Macroeconomic Policy Debate 20%

Policy Lab: Takes place on Week 6. Students are expected to form groups of three to work on a 5-to-7-minute video presentation, discussing a societal/economic issue and proper policies to address the problem. The videos will be posted on Moodle, open for comments and questions from other students. Meaningful comments/questions are also counted towards participation grade.

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

**Week 1 – 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 2 – Introduction into Markets**

Required:

MankiwTaylor\_Economics, Appendix to Chapter 2, “Graphing and the tools of economics: A brief review” (pp. 30 — 40)

MankiwTaylor\_Economics, Chapter 3, “The market forces of supply and demand” (pp. 41 — 69)

MankiwTaylor\_Economics, Chapter 4, “Elasticity and it’s applications” (pp. 72 — 89 and 95 — 99)

**Week 3 – Market Dynamics, Welfare, and Policy Intervention**

Required:

MankiwTaylor\_Economics, Chapter 7, “Consumers, producers and the efficiency of markets” (pp. 169 — 183)

MankiwTaylor\_Economics, Chapter 8, “Supply, demand and government policies” (pp. 187 — 199)

MankiwTaylor\_Economics, Chapter 9, “The tax system and the costs of taxation” (pp. 203 — 210)

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 4 – 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 5 – The Open Economy**

Required:

Mankiw, Chapter “The Open Economy”

Recommended:

Borjas, Chapter 13

**Week 6 – Policy Lab**

Virtual Policy Lab

**Week 7 – The Labor Market**

Required:

Mankiw, Chapter “Unemployment and the Labor Market”

Recommended:

Miles and Scott, Chapter 3

**Week 8 – 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: TBA

**Week 9 – The Business Cycle**

Required:

Mankiw, Chapter “Introduction to Economic Fluctuations”

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

Recommended: TBA

**Week 10 – Stabilization Policy**

Required:

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

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

Recommended: TBA

**Week 11 – The Open Economy Revisited**

Required:

Mankiw, Chapter “The Open Economy Revisited: The Mundell–Fleming Model and the Exchange-Rate Regime”

Recommended: TBA

##### Week 12

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