Syllabus

MACROECONOMICS (M8674)

Master in Economics – ISCTE—IUL

First Semester 2019/2020

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1   Objectives

This course represents the first students' contact with macroeconomics at a more advanced level, after they have completed a bachelor degree. Generally speaking, students are expected to learn for the first time the basic techniques (mathematical and computational), the language, and the workhorse models that represent the initial steps in order to discuss modern macroeconomic problems at more advanced levels.

In particular, the specific main goals of this course are to develop skills to analyze, summarize and also to have a critical opinion about the following items: (i) the main stylized facts of business cycles; (ii) the solutions to models with rational expectations; (iii) the problem of credibility and time consistency in economic policy; (iv) the optimal choice of policy instruments; and (v) the main aspects of the two currently major competing models in macroeconomics and their explanations about business cycles (the Real Business Cycles Model and the New Keynesian Model).

2   Pre-requisites

Some basic knowledge of macroeconomics, microeconomics and calculus is recommended. However, the inexistence of that knowledge in micro and macroeconomics will not be a severe impediment to learning and developing skills at this particular course, because, as far as possible, the course intends to be self-contained.

However, there are two particular points about which students should have some relevant knowledge. These will be covered in some preparatory sessions before the starting of this course and are:

- An introduction to Julia

- A two period economy: intertemporal decision making

3   Main points covered

1. The current state of macro: a brief characterization

2. Stylized facts of the business cycles: major facts and techniques

3. Solution to models with rational expectations

4. The "Real Business Cycle Model"

5. Credibility and time consistency in economic policy

6. The optimal choice of policy instruments (the Poole model)

7. The New Keynesian Model: main functions

8. The New Keynesian Model: optimal monetary policy

9. Central Banks, credibility and the current financial crisis

4   Bibliography

Given that this course represents the first students' contact with macroeconomics at a more advanced level, some care should be taken when choosing and providing bibliographic information to students. No textbook is explicitly adopted here. Instead we will make use of publicly available lecture notes, which will be provided topic by topic. The main reasons for this

choice are: students save time; lecture notes are better "tailored" to each topic than just following a textbook; major available textbooks require a much lengthier course (not just a 30 hours course) to cover the topics discussed in this course.

The detailed information about the readings for each topic of the syllabus above can be obtained in the course's web site at: *www.cm.de.iscte.pt*. Here you can find not only the required reading list, but also slides, problem sets, solutions and many Julia files.

For those students who want to take a higher step on the issues discussed in the course, the following textbooks are recommended:

1. Lars Ljungqvist and Tom Sargent (2012). Recursive Macroeconomic Theory, 3rd edition, MIT Press

2. David Romer (2019). Advanced Macroeconomics, 5th edition, McGraw-Hill, New York

3. Michael Wickens (2012). Macroeconomic Theory:A Dynamic General Equilibrium Approach, 2nd edition, Princeton University Press

4. Jean-Pascal Bénassy (2011). Macroeconomic Theory, Oxford University Press, Oxford

For those that do not have a sound background in macroeconomics, the following textbooks may be of significant help:

1. Stephen Williamson (2019), Macroeconomics, 6th edition, Pearson Addison-Wesley, Boston

2. Charles I. Jones (2016). Macroeconomics, 4nd edition, W.W. Norton, New York.

5 Grading

This process includes two alternatives:

- Option A

    - Final test (60%): This will be between 9—20 December 2019
    - A group essay (40%): on a subject discussed in the course (delivered until 20 December)

- Option B

    - Final exam (100%): The final exam will be on early January 2020 and covers all materials discussed in the coursework.