THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

INTERMEDIATE MACROECONOMICS (EC202)

Course duration: 54 hours lecture and class time (Over three weeks)

LSE Teaching Department: Department of Economics

Lead Faculty: Dr Rachel Ngai and Dr Kevin Sheedy

Pre-requisites: Introductory macroeconomics and microeconomics, multivariate calculus (in particular, constrained optimization).

Course Overview:

In recent times, macroeconomic questions have once again surged to the forefront of public attention and debate. This course aims to bring you up to date with modern developments in macroeconomic theory and offer fresh perspectives on the macroeconomic challenges of the day.

The course is essentially structured around a series of key questions:

- What are the forces that drive long-term prosperity?
- Why does economic activity fluctuate?
- Can and should policymakers seek to ameliorate business cycles?
- What are the features of financial markets and labour markets that make them special, and how do they interact with the rest of the economy?
- What is the role of banks and why are they inherently fragile?
- How should households and firms plan for an uncertain future?
- What are the implications of increasing globalization of trade and finance for the economy?
- How should central banks conduct monetary policy?

The approach of the course is to discuss the salient features of the data and then go on to present macroeconomic models to study these issues.

Content

The course covers the following topics: macroeconomic measurement and data, labour markets and unemployment, economic growth, consumption and saving, investment, money and banking, business cycles, monetary and fiscal policy, and international macroeconomics.

Lectures: 36 hours **Classes**: 18 hours

Formative assessment: One marked homework exercise

Summative assessment: Two written examinations

Textbook

The textbook for the course is Williamson, *Macroeconomics*, 5th ed., Pearson (2013).

A useful background reading is Mankiw and Taylor, *Macroeconomics*, W H Freeman & Co (2006).

Outline and readings: Part I

Overview and measurement

- Measures of GDP and discussion of other factors that are left out by GDP measures
- Decomposition of GDP changes into growth and business cycles
- Comparing real GDP over time and across countries

Required reading: Williamson (chapters 1 & 2)

Review materials

- How labour supply is determined through the utility maximization of a representative consumer
- The neoclassical production function and the Cobb-Douglas production function
- How labour demand is determined through the profit maximization of a representative firm
- Competitive equilibrium and Pareto optimality

Required reading: Williamson (chapters 4 & 5)

Economic growth

- Key growth facts
- A Malthusian model of stagnation in output per capita prior to the 19th century
- The Solow model of growth in output per capita since the industrial revolution
- Growth accounting and development accounting
- Three classes of endogenous growth models: learning-by-doing, human capital accumulation, research and development

Required readings:

- A Malthusian model, Williamson (chapter 7)
- The Solow model, Williamson (chapter 7)
- Beyond the Solow model, Williamson (chapters 7 & 8)
- Endogenous growth models, Williamson (chapter 8)

Useful background reading: Mankiw & Taylor (chapters 7 & 8)

Consumption and saving

- A simple two-period model that focuses on consumers
- Understand how consumption and saving are determined through the utility maximization of a representative consumer who cares about both present and future
- The role of government and Ricardian equivalence
- Social security programs: pay-as-you-go and fully funded programs
- Credit market imperfections: asymmetric information and limited commitment, and the connection with the financial crisis

Required reading: Williamson (chapters 9 & 10)

Useful background reading: Mankiw & Taylor (chapter 17)

Investment

- A simple two-period model that focuses on firms
- The investment decision of a representative firm that cares about profits both in the present and the future
- The logic behind Tobin's q theory of investment that links investment decisions to the stock market

Required reading: Williamson (chapter 11)

Useful background reading: Mankiw & Taylor (chapter 18)

Unemployment

- Key labour market facts
- An efficiency wage model of unemployment resulting from information and incentive problems
- A model of unemployment based on search frictions

Required reading: Williamson (chapter 6)

Outline and readings: Part II

Measuring macroeconomic fluctuations

- Trends, cycles, volatility, co-movement, leads and lags
- Stylized facts about business cycles

Required reading: Williamson (chapter 3)

Useful background reading: Mankiw & Taylor (chapter 2)

A dynamic macroeconomic model

- A general-equilibrium macroeconomic model of the goods, labour, and bond markets
- Analysis using the dynamic model: The effects of shocks and news about the future

Required reading: Williamson (chapter 11)

Money and banking

- Characteristics of money
- Real and nominal interest rates
- Dynamic monetary model
- Money neutrality and superneutrality
- Money and public finance
- The optimal rate of inflation
- Banking & bank runs

Required reading: Williamson (chapters 12 & 17)

Useful background reading: Mankiw & Taylor (chapters 4 & 19)

Business cycle theory

- Real business cycles
- Keynesian sticky-price model
- Imperfect information/misperceptions model
- Coordination failure model

Required reading: Williamson (chapters 12-14)

Useful background reading: Mankiw & Taylor (chapters 9-11, 13 & 20)

International macroeconomics

- International trade in goods and assets
- Intertemporal approach to the current account
- Sovereign default
- Dynamic open-economy model
- Exchange rates and purchasing power parity
- Exchange rate policy and capital controls

Required reading: Williamson (chapters 15 & 16)

Useful background reading: Mankiw & Taylor (chapters 5 & 12)

Monetary and fiscal policy

- The zero lower bound and unconventional monetary policy
- Rules versus discretion in monetary policy: Inflation bias
- Fiscal policy: crowding out versus multiplier effects

Required reading: Williamson (chapters 11-14 & 18)

Useful background reading: Mankiw & Taylor (chapters 4 & 14)

Credit Transfer: If you are hoping to earn credit by taking this course, please ensure that you confirm it is eligible for credit transfer well in advance of the start date. Please discuss this directly with your home institution or Study Abroad Advisor.

As a guide, our LSE Summer School courses are typically eligible for three credits within the US system and 7.5 ECTS in Europe. Different institutions and countries can, and will, vary. You will receive a digital transcript and a printed certificate following your successful completion of the course in order to make arrangements for transfer of credit.

If you have any queries, please direct them to summer.school@lse.ac.uk