

PP440E Economic Policy Analysis

13 - 17 April 2026

Prof Sandra Sequeira and Dr Ethan Ilzetzki

Course Outline

This is an introductory course in economics intended to provide students with the tools to analyse a variety of policy questions and to provide a basis for the second-year option modules and the Policy in Practice workshops. The course is divided equally between microeconomic and macroeconomic topics.

In the first half, we start by recalling why markets may sometimes be a good way of organising economic activity. We then go on to examine in detail a variety of circumstances in which markets fail to deliver satisfactory outcomes and where government intervention may be warranted. These include: the presence of market power; external effects in production and consumption; public goods; and markets characterised by asymmetric information between buyers and sellers.

In the second half, we begin by considering some of the key indicators used to assess the performance of the economy and the factors that determine the levels of output, interest rates and prices over the long run. We then move onto investigating the causes of economic fluctuations and the scope for monetary and fiscal policies to attenuate them, including issues of institutional design. Finally, we will look at the causes and management of fiscal and financial crises.

By the end of the course, students should be able to apply the tools to specific new policy challenges, while also understanding the limitations of their analysis.

Faculty

[Prof Sandra Sequeira](#) is a Professor of Development Economics at the School of Public Policy at LSE. She is also a research affiliate/fellow at STICERD, Fellow and co-Director of a Research Policy Network at the Centre for Economic Policy Research (CEPR), a fellow of the Royal Economic Society and a fellow and lead academic for the International Growth Centre (IGC). Her research interests are in development economics and political economy. She holds a PhD from Harvard University, an MA from the Fletcher School and a BA from Universidade Nova in Lisbon, Portugal.

[Ethan Ilzetzki](#) is an Associate Professor in Economics at the London School of Economics. He is a Fellow of the Centre for Economic Policy Research (CEPR) and an Affiliate of the Centre for Macroeconomics. He heads the Research Policy Network on Geoeconomics and Security at the CEPR. His research focuses on fiscal policy, macroeconomics, and international economics. He serves on the editorial boards of the IMF Economic Review and the Journal of Monetary Economics. He was awarded

a European Research Council consolidator grant in 2021. He has held policy and research positions at the International Monetary Fund and the U.S. Department of Treasury and visiting positions at the Federal Reserve Board, the World Bank, and the Bank of England. He holds a B.Sc. in Electrical Engineering from the Technion: Israel Institute of Technology, an M.A. in International Affairs from Johns Hopkins University's School of Advanced International Studies, and a Ph.D. in Economics from the University of Maryland.

Assessment

There are two components of the assessment that count equally for the final mark:

- An online exam that will take place over **8-11 May 2026**. It will consist of a combination of short-answer questions and longer-answer questions. You will have 3 hours and 15 minutes after downloading the exam to complete it.
- A 2,000-word essay that is due on **31 May 2026**.

Overview of Topics

Monday

The Perfectly Competitive Market, Government Intervention and Market Failures

Micro Case Study 1: The UK housing market; Market for short-term rentals

Market Failure (Monopoly Power)

Micro Case Study 2: Amazon and Google – Are they monopolizing the market?

Tuesday

Market Failures (Externalities)

Micro Case Study 3: The European Emission Trading System; Congestion Pricing

Public Goods

Micro Case Study 4: Ideas as a Public Good; Open-Data Platforms

Wednesday morning

Asymmetric information

Micro Case Study 5: The Market for Fake Drugs in Uganda; Disability Benefits

Wednesday afternoon

Measuring the Aggregate Economy and the State of the Economy in 2026

Economic Growth

Thursday

Money, Banks, Finance, and the Economy

Business Cycles

Macro Case Study 1: Demand shock, supply shock, or both?

Macro Case study 2: The Varieties of Emerging Market Recessions: The Case of Argentina

Stabilisation Policy

Friday

Monetary Policy

Macro Case Study 3: Inflation Targeting meets Emerging Markets

Fiscal Policy

Macro Case Study 4: The Greek Fiscal Tragedy

The International Monetary System

Part I: Microeconomics

Preparatory Reading

For the microeconomics half of the course, **case studies** will play an important role in class discussions and will be available on Moodle. You should read through these case studies in advance to allow for a fruitful discussion of the cases in class. We would recommend skimming through the cases again in advance of each day's lecture during the course week as a refresher. Please come prepared to discuss the questions listed in the case study during the group discussions and the main lecture. Each case study will identify the key academic papers and newspaper readings that can help frame the discussion. The optional articles are suggested readings only for those who would like to engage further with the material, particularly for their essays.

Academic readings: You do not need to master all the details, but you should have a general understanding of what the main message of the paper is. The introduction should give you a good idea of the motivation and the findings of the paper.

Lecture slides: These slides describe in detail the core concepts taught in the module. They will serve as the basis for the main lecture and can also help guide the review sessions so reading them in advance of the module will enhance your understanding.

Textbooks

Several textbooks cover the material for those who would like to learn more about the theory behind our discussions. These readings are not mandatory but may be accessed whenever students would like to clarify any of the concepts covered in the lectures or class discussions.

- Pindyck, Robert and Daniel Rubinfeld (2018) *Microeconomics*, Pearson Education Limited
(LSE has online access to this textbook)
- Varian, Hal R. (2010) *Intermediate Microeconomics: A Modern Approach*, 8th Edition, Norton.
(This is a classic microeconomics textbook only for those mathematically inclined)

Course Content and Readings

MONDAY morning: The Perfectly Competitive Market, Government Intervention and Market Failures

Key questions: *We begin by introducing the concept of the market as a place for voluntary exchanges to occur. Why are markets desirable when allocating scarce resources? What distortions can government intervention create in markets? When do markets fail to generate desirable outcomes?*

Topics:

- The Perfectly Competitive Market: Pareto Optimality and Surplus Maximization
- Supply, Demand, Elasticity
- Taxes, Subsidies, Deadweight Loss, Tax Incidence
- Profit Maximization, Market Power, and Regulation

Case study 1 – The UK housing market; Market for short-term rentals

Essential Reading:

- BBC – [Help to Buy scheme's impact across England revealed](#)
- The Guardian – [Help to Buy – Pro and Cons](#)
- Financial Times – [Why holiday rentals are winning the battle for Europe's city housing markets](#)

Background Reading (Optional):

- The Economist – [Would building 1.5m houses bring down](#)
- The Economist – [Governments are rethinking the provision of public housing](#)
- Marginal Revolution University (video) <https://mru.org/courses/development-economics/rent-control-mumbai-india>

Textbooks (Background Reading Only - Optional):

- Varian, Hal R. (2010) *Intermediate Microeconomics: A Modern Approach* 8th Edition, Norton.
 - Chapter 1 – The Market
 - Chapter 14 – Consumer surplus
 - Chapter 15 – Market demand
 - Chapter 16 – Equilibrium
 - Chapter 22 – Firm supply
- Pindyck, R. and Daniel Rubinfeld (2018)
 - Chapter 3 – Consumer Behavior
 - Chapter 4 – Individual and Market Demand
 - Chapter 8 – Profit Maximization
 - Chapter 9 – Competitive Markets

MONDAY afternoon: Market Failure (Monopoly Power)

Key questions: *What is market power? Are monopolies ever justified? Should the government intervene to prevent them?*

Topics:

- Marginal Revenue
- Price Elasticity of Demand
- Natural Monopolies

Case study 2 – Amazon and Google – Are they monopolizing the market?

Essential Reading:

- The Economist – [The Mighty Amazon](#)
- Marketplace Pulse – [Amazon Is a Monopoly, an Interview With Sally Hubbard](#)
- Federal Trade Commission – [FTC Sues Amazon for Illegally Maintaining Monopoly Power](#)

Background Reading:

- The New York Times (Optional) – [Amazon's Monopsony is not OK.](#)
- Aghion, P., Bloom, N., Blundell, R., Griffith, R., & Howitt, P. (2005) "Competition and Innovation: An Inverted-U Relationship", *Quarterly Journal of Economics*, 120(2), 701-728.

Textbook (Background Reading Only, for consultation if needed – Optional):

- Pindyck, R. and Daniel Rubinfeld (2017)
 - Chapter 10 – Market Power
 - Chapter 11 – Pricing with Market Power
 - Chapter 14 – Markets for Inputs
- Varian, Hal R. (2010) *Intermediate Microeconomics: A Modern Approach* 8th Edition, Norton.
 - Chapter 24 – Monopoly
 - Chapter 25 – Monopoly behaviour (only 25.1 Price discrimination)
 - Chapter 26 – Factor markets

TUESDAY morning: Market Failures (Externalities)

Key questions: *What are externalities and how can they be remedied? What are public goods and why should the government provide them? What is the role of patents in innovation?*

Topics:

- Externalities, Incomplete Markets and the Coase Theorem
- Public Goods and Government Provision
- The Economics of Patents

Case study 3: The European Emission Trading System; Congestion Pricing**Essential Reading:**

- VoxEu – [Making carbon pricing work for citizens](#)
- Vox Eu – [What European carbon border tax might look like](#)
- The Economist – [Congestion pricing in Manhattan is a predictable success](#)

Background Reading (Optional):

- Financial Times – [China's carbon trading scheme struggles to take off](#)
- New York Times – [Does a carbon tax work? Ask British Columbia](#)
- Financial Times – [The battle over New York's congestion toll](#)

Textbooks (Background Reading Only, for consultation if needed – Optional):

- Varian, Hal R. (2010) *Intermediate Microeconomics: A Modern Approach* 8th Edition, Norton.
 - Chapter 34 – Externalities
 - Barr, Nicholas (2012) *Economics of the Welfare State* 5th Edition, Oxford.
 - Chapter 3 – Economic Theory 2: Insurance (particular 4.3.2 Asymmetric information)
 - Pindyck, R. and Daniel Rubinfeld (2018)
 - Chapter 18 – Externalities and Public Goods
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TUESDAY afternoon: Public Goods

Key questions: *What are public goods and why should the government provide them? What is the role of patents in innovation?*

Topics:

- Public Goods and Government Provision
- The Economics of Patents

Case study 4 – Ideas as a Public Good; Open-Data Platforms**Essential Reading:**

- NASA – [Benefits from Apollo: Giant leaps in technology](#)
- Works in Progress – [Malaria Vaccine](#)
- Financial Times – [Can better data save the NHS?](#)

Background Reading:

- VoxEu - [New ideas about new ideas: Paul Romer, Nobel Laureate](#)

- Bloom, N., Jones, C. I., Van Reenen, J., & Webb, M. (2020) "Are Ideas Getting Harder to Find?", *American Economic Review*, 110(4), 1104-44.

Textbooks (Background Reading Only, for consultation if needed – Optional)

- Varian, Hal R. (2010) *Intermediate Microeconomics: A Modern Approach* 8th Edition, Norton.
 - Chapter 36 – Public goods
- Pindyck, R. and Daniel Rubinfeld (2018)
 - Chapter 18 – Externalities and Public Goods

WEDNESDAY morning: Asymmetric Information

Key Questions: *Informational frictions and the market. What happens to markets when the quality of goods transacted is unclear? How do markets deal with risk? How does asymmetric information affect policy design? What is the rationale for national insurance?*

Topics:

- Moral Hazard
- Adverse Selection
- National Insurance

Case study 5 – The market for fake drugs in Uganda; Disability Benefits

Essential Reading:

- VoxEU – [How retail drug markets in poor countries develop](#)
- [Financial Times – Freezing Health Care Benefits](#)
- [The Guardian – Disability Benefits Cuts](#)

Textbooks (Background Reading Only, for consultation if needed– Optional):

- Barr, Nicholas (2012) *Economics of the Welfare State* 5th Edition, Oxford.
 - Chapter 3 – Economic Theory 2: Insurance (particular 4.3.2 Asymmetric information)
 - Varian, Hal R. (2010) *Intermediate Microeconomics: A Modern Approach* 8th Edition, Norton.
 - Chapter 37 – Asymmetric Information
 - Pindyck, R. and Daniel Rubinfeld (2018)
 - Chapter 18 – Externalities and Public Goods
 - [Can Good Products Drive Out Bad? A Randomized Intervention of Antimalarial Medicine Market in Uganda](#)
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Part II: Macroeconomics

Preparatory Reading

The main purpose of the (generally short) readings/viewings marked **Essential** is to introduce the topic to be discussed in the associated lecture but in most cases they also cover the key analytical ideas. You should read/view these ahead of the lecture. There are also two Macro Case Studies to be discussed in the lectures and it will be helpful if you have looked at these in advance.

In the lectures, we will both develop the analytical foundations and draw out the policy implications. The readings marked as **Background** – generally from Mankiw and Taylor and/or Cowen and Nabarro – are where you should look if the presentation in the lectures is unclear or if you wish to cement your understanding. If *you have not studied macroeconomics before*, however, then you are *strongly advised* to watch at least the first few of the relevant videos from the Cowen and Nabarro course *before* the module so that you already have some exposure to the main ideas when they are introduced in the lectures.

You are ***not*** expected to read the **Further** readings for the lectures or exam. However, they may be useful if you subsequently wish to delve deeper, including for your essay.

Textbooks and Video Courses

Although the module will not follow it closely, the most useful text is:

- Mankiw, N. Gregory and Mark Taylor (2023) *Macroeconomics*, 6th Edition, Cengage. (LSE has online access to this textbook)

The chapter numbers below relate to the 6th edition. Earlier editions can be used but be aware that chapter numbering may differ, so follow the chapter titles instead.

The second half (Part 9 on) of Mankiw, N. Gregory and Mark Taylor (2023) *Economics*, 6th Edition, Cengage, covers similar material and can be used as an alternative; LSE also has online access (again be guided by the chapter titles). There are also numerous other intermediate-level macroeconomics texts covering similar territory.

As an alternative to a textbook, you may find this open-source video course useful, which is the macroeconomic counterpart to the [microeconomics](#) video course that you encountered in the *Introduction to Public Policy* module:

- Cowen, Tyler and Alex Tabarrok, [Principles of Economics: Macroeconomics](#), Marginal Revolution University.

This covers similar territory to Mankiw and Taylor in 80 digestible short videos (around 5 minutes each) and is *especially recommended for students who have not studied macroeconomics before*.

Course Content and Readings

WEDNESDAY afternoon I: Measuring the Aggregate Economy and the State of the Economy in 2026

Key questions: *How do we measure economic activity? How can we think about the health of the economy as a whole? What are the main macroeconomic variables that macroeconomists look at and why?*

Topics:

- The National Accounts framework
- Measurement of GDP and inflation
- International data on GDP and living standards

Essential videos:

- [Ilzetzki, Video Lecture: National Accounts](#) (password: 440E440)
- [Ilzetzki, Video Short: Measuring Prices and Inflation](#) (password: 440E440)
- [Ilzetzki, Video Short: Measuring Unemployment](#) (password: 440E440)

Background reading (optional):

- Mankiw and Taylor *Macroeconomics*
 - Chapter 4: Measuring a nation's well-being and the price level (pp.80-104)
- Cowen and Tabarrok [Principles of Economics: Macroeconomics](#)
 - Section 1: GDP
 - Section 2: The wealth of nations and economic growth

Further reading:

- Harford, Tim (2014) *The Undercover Economist Strikes Back*, Chapter 11: The Cult of GNP, Abacus London.
 - Planet Money (2014) "[The Invention of 'The Economy'](#)", 28 February.
- Planet Money Summer School 2 (2022) "[GDP & What Counts](#)", 20 July.
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WEDNESDAY afternoon II: Economic growth

Key questions: *What determines living standards? Why are some countries richer than others? What can policy do about it?*

- **Topics:**
- Capital accumulation: the Solow model
- The role of knowledge: endogenous growth
- Growth accounting
- Public policy and growth

Essential reading:

- Planet Money Summer School 8 (2022) "[Productivity & Getting Lit](#)", 31 August.
- Planet Money (2022) "[Britain's Productivity Problem](#)", 25 October.

Background reading (optional):

- Mankiw and Taylor *Macroeconomics*
 - Chapter 5: Production and growth
- Cowen and Tabarrok [Principles of Economics: Macroeconomics](#)
 - Section 3: Growth, capital accumulation and the economics of ideas

Further reading:

- Banerjee, Abhijit V. and Esther Duflo (2005) "Growth Theory through the Lens of Development Economics" in *Handbook of Economic Growth* edition 1, volume 1, chapter 7, Philippe Aghion and Steven Durlauf eds. Elsevier. (Some technical parts, but a good overview of how development economists view the macroeconomics of economic growth.)
 - Jones, Charles I. (2016) "The Facts of Economic Growth" in *Handbook of Macroeconomics*, Vol. 2A, John B. Taylor and Harald Uhlig eds.
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THURSDAY morning: Money, banks, finance, and the economy

Key questions: *What is money and what is the role of banks in creating money? How is the supply of money related to inflation? Why do some countries lose control over inflation? What are interest rates and what determines their level?*

Topics:

- Short and long-term interest rates
- The market for 'loanable funds'
- Understanding bank balance sheets
- The role of money in the economy

Essential reading:

- Financial Times (2024) "[How low will rates go? The hunt for the elusive 'neutral' level](#)", 12 February.
- Planet Money (2023) "[Where Are Interest Rates Going?](#)", 18 April.
- Planet Money (2011) "[The Invention of Money](#)" for *This American Life* WBEZ, 7 January.
- Planet Money Summer School 4 (2022) "[Inflation & Drinking Buddies](#)", 3 August.
- Daily Telegraph (2008) "[Zimbabwe hyperinflation will set world record within six weeks](#)", 13 November.

Background reading (optional):

- Mankiw and Taylor *Macroeconomics*
 - Chapter 7: Saving, investment and the financial system
 - Chapter 8: The monetary system
- Cowen and Tabarrok [*Principles of Economics: Macroeconomics*](#)
 - Section 4: Savings, investment and the financial system
 - Section 7: Inflation and quantity theory of money

Further reading:

- Bryan, Michael (2004) "[Island Money](#)," Federal Reserve Bank of Cleveland, Economic Commentary, 1 February.
 - Steinson, Jón (2023) "[Money, Inflation, and Output: A Quantity-Theoretic Introduction](#)" mimeo in preparation for textbook.
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THURSDAY afternoon I: Business cycles

Key questions: *What causes economies fluctuate from boom and bust? What are the varieties of business cycles? Should governments try to respond to booms and busts? How should they do so? How do monetary and fiscal stabilization policies work?*

Topics:

- Business cycles
- Aggregate demand and aggregate supply
- The role of leverage in business cycles

Essential reading:

- Planet Money Summer School 3 (2022) "[Booms, Busts & Us](#)", 27 July.
- Macro Case Study 1: "Demand shock, supply shock, or both?"
- Macro Case study 2: "The Varieties of Emerging Market Recessions: The Case of Argentina"

Background reading (optional):

- Mankiw and Taylor *Macroeconomics*
 - Chapter 10: Business cycles
 - Chapter 12: Aggregate demand and aggregate supply
- Cowen and Tabarrok [*Principles of Economics: Macroeconomics*](#)
 - Section 8: Business fluctuations

Further reading:

- Mian, Atif and Sufi, Amir (2014). *House of Debt*: Chapters 1-3, University of Chicago Press, Chicago.
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THURSDAY afternoon II: Stabilization policy

Key questions: *Should governments respond to booms and busts and, if so, how? How do monetary and fiscal stabilization policies work? Why do we have unemployment and how is it affected by policy?*

Topics:

- Monetary policy, fiscal policy and aggregate demand
- Unemployment

Background reading (optional):

- Mankiw and Taylor *Macroeconomics*
 - Chapter 13: The influence of monetary and fiscal policy on aggregate demand
 - Chapter 6: Unemployment and the labour market
- Cowen and Tabarrok [*Principles of Economics: Macroeconomics*](#)
 - Section 6: Unemployment and labour force participation

Further reading:

- Mankiw and Taylor *Macroeconomics*
 - Chapter 14: The short run trade-off between inflation and unemployment
 - Ng, Michael, David Wessel and Louise Sheiner (2018) "[The Hutchins Center Explains: The Phillips Curve](#)", 1 August.
(Both readings concern the 'original' Phillips Curve that links inflation and unemployment.)
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FRIDAY morning I: Monetary policy

Key questions: *How do central banks control inflation? Why do we have independent central banks? Why do some countries target the exchange rate?*

Topics:

- Monetary policy instruments
- Inflation bias and the case for central bank independence
- Inflation targeting and the monetary policy rules

Essential reading:

- Macro Case Study 3: Inflation Targeting meets Emerging Markets

Background reading (optional):

- Mankiw and Taylor *Macroeconomics*
 - Chapter 8: The monetary system (pp.186-194)
- Cowen and Tabarrok [*Principles of Economics: Macroeconomics*](#)
 - Section 10: Monetary Policy and the Federal Reserve

Further reading:

- Bernanke, Ben S., and Frederic S. Mishkin (1997) "Inflation Targeting: A New Framework for Monetary Policy?" *Journal of Economic Perspectives*, vol. 11 (Spring), pp. 97–116.
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FRIDAY morning II: Fiscal policy

Key questions: *How effective is fiscal policy as a stabilisation tool? How should shocks to public spending be financed? When is public debt too high?*

Topics:

- The effectiveness of fiscal policy as a stabilisation tool
- Theory of public debt and deficits
- Debt dynamics, debt sustainability and sovereign debt crises

Essential reading:

- Andolfato, David (2020) "[Does the National Debt Matter?](#)" Federal Reserve Bank of St. Louis, 4 December.
- Financial Times (2024) "[Spiralling US public debt risks action from bond vigilantes](#)", 26 February.
- Macro Case Study 4: The Greek Fiscal Tragedy

Background reading (optional):

- Cowen and Tabarrok [Principles of Economics: Macroeconomics](#)
 - Section 11: Fiscal policy

Further reading:

- Ilzetzki, Ethan, *LSE Public Lecture*: "[Fiscal Policy During Recessions and Recoveries](#)"
 - Blanchard, Olivier J. (2022) "[Why low interest rates force us to revisit the scope and role of fiscal policy: 45 takeaways](#)" PIIE Blog (Summarizes the key takeaways from his recent book *Fiscal Policy Under Low Interest Rates*.)
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FRIDAY afternoon: The International Monetary System

Key questions: *How do firms and individuals transact across borders? Why is the dollar so commonly used in international transactions? Why do so many central banks anchor their currencies to the dollar? Will the dollar continue to be the international medium of exchange?*

Topics:

- Why banks are fragile: the 'alchemy' of banking
- Leverage and bank runs
- Deposit insurance and the central bank as a 'lender of last resort'
- Bank regulation
- Banking crises and sovereign debt crises: the 'doom loop'

Essential reading:

- Ilzetzki, Ethan, Carmen Reinhart, and Kenneth Rogoff (2022) "Rethinking Exchange Rate Regimes," in Handbook of International Economics, vol 5, G. Gopinath, E. Helpman and K. Rogoff, eds.
- Dooley, Michael, David Folkerts-Landau and Peter Garber, "An Essay on the Revived Bretton Woods System," NBER Working Paper 9971, 2003
- Ilzetzki, Ethan, Carmen Reinhart, and Kenneth Rogoff (2020) "Will the Secular Decline in Exchange Rate and Inflation Volatility Survive Covid-19?" Brookings Papers on Economic Activity, Fall.
- Rey, Hélène (2013) "Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence," Proceedings of the Jackson Hole Economic Policy Symposium, Federal Reserve Board of Kansas City.

Further reading:

- Rogoff, Kenneth (2025). *Our Dollar, Your Problem*, New Haven: Yale University Press.
 - Bluestein, Paul (2025). *King Dollar: The Past and Future of the World's Dominant Currency*, New Haven: Yale University Press.
 - Eichengreen, Barry *Money Beyond Borders: Global Currencies from Croesus to Crypto*, Princeton NJ: Princeton University Press.
 - Ilzetzki, Ethan, Carmen Reinhart, and Kenneth Rogoff (2019) "Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?" Quarterly Journal of Economics 134(2).
 - Horn, Sebastian, Carmen M. Reinhart and Christoph Trebesch (2019). "China's Overseas Lending" *Journal of International Economics*, vol 133.
 - Makarov, Igor and Antoinette Schoar (2022). "Cryptocurrencies and decentralized finance (DeFi)" *Brookings Papers on Economic Activity*, Spring.
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