INTERMEDIATE MACROECONOMICS (EC202)

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

Summer School Programme Area: Economics

LSE Teaching Department: Department of Economics

Lead Faculty: Dr Kevin Sheedy and TBC (Dept. of Economics)

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

Course objective

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 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 make plans for the future?
- Why does unemployment occur?
- What are the implications of increasing globalisation 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.

Textbook

Structure
The course consists of 12 lectures (3 hours each, 36 hours in total) and 12 classes (1.5 hours each, 18 hours in total).

Assessment
Formative
Format: Marked homework exercise
Date: Friday of week one
Feedback/results due: Monday of week two

Summative
Format and weighting: Two written examinations, a mid-session examination and a final examination. Each will account for 50% of the mark and will be of two hours duration. Precise time and location of the exams will be circulated during the programme.
Date (mid-session exam): Wednesday of week two
Results due (mid-session exam): Monday of week three
Date (final exam): Friday of week three
Results due (final exam): Thursday the following week
Outline and readings: Part I

Topic 1: Macroeconomic measurement and data

- Measuring GDP and discussion of factors that are left out by GDP measures
- Comparing real GDP over time and across countries

*Reading*: Williamson, chapters 1-2.

Topic 2: The labour market

- The labour supply decision of a utility-maximizing household
- The labour demand decision of a profit-maximizing firm
- Competitive equilibrium and Pareto optimality

*Reading*: Williamson, chapters 4-5.

Topic 3: 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
- A two-country model to understand international technology transfer

*Reading*: Williamson, chapters 7-8.

Topic 4: Consumption and saving

- Consumption and saving behaviour of a forward-looking utility-maximizing household
- Ricardian equivalence and the role of government
- Public pensions: pay-as-you-go and fully funded systems
- Credit market imperfections: asymmetric information, limited commitment, and the financial crisis

*Reading*: Williamson, chapters 9-10.
Topic 5: Investment
- Investment behaviour of a forward-looking profit-maximizing firm
- Tobin’s q theory of investment and the link between investment and the stock market

Reading: Williamson, chapter 11.

Topic 6: Unemployment
- Key labour market facts
- ‘Sticky wages’ as an explanation for unemployment: efficiency wage model
- Stocks and flows in the labour market
- A simple search model of unemployment focusing on workers’ search for jobs
- Equilibrium search model of unemployment: workers search for vacancies and firms post vacancies to search for workers

Reading: Williamson, chapter 17 (4th ed., available online); Pissarides, chapter 1 (available online).

Topic 7: 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

Reading: Williamson, chapter 11.
Outline and readings: Part II

Measuring macroeconomic fluctuations

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

*Reading:* Williamson, chapter 3

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

*Reading:* Williamson, chapters 12 and 17.

Business cycle theory

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

*Reading:* Williamson, chapters 12-14.

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

*Reading:* Williamson, chapters 15 and 16.
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

Reading: Williamson, chapters 11-14, and 18.

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 or four 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