Macroeconomics for Public Policy

CEU, Department of Public Policy

Instructor: Martin Kahanec
Office Hours: once a week an hour (TBA) + by appointment

Course description
Macroeconomics is a branch of Economics that studies the performance, structure, and behavior of a national or regional (e.g. EU) economy as a whole. Macroeconomic developments are a central theme of policy debate 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 a thorough understanding of the macroeconomic theory and thus enable them to understand and analyze 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.

Along with the lecture notes, the main text used throughout the course will be:

Mankiw, N. Gregory. Macroeconomics, Worth Publisher, 6th edition

This text will be supplemented by:

and a selection of articles as outlined below.

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 fiscal and monetary policy, unemployment, inflation, or economic growth. Considerable effort will be made to make the material accessible to students with diverse backgrounds.

Objectives and outcomes
The course fosters a comprehensive understanding of macroeconomic principles and 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 homework assignments and their contributions to the Macroeconomic Policy Forum fostering theoretical as well as their policy applications and their oral communication skills through in-class discussions.
Course structure
Two two-hour classes will take place each odd week, there will be one two-hour class every even week. Interactive lectures will serve to explain and discuss the core course material. Wrap-up seminars will serve two main purposes: solidify students’ understanding of the course material and allow them to apply their theoretical knowledge to the analysis of specific public policy issues. In particular, homework assignments will be discussed and any issue needing further attention (raised by the students) will be addressed.

Active participation of students in seminar discussions is expected and encouraged.

Grading
- 2 homework assignments (Weight: 10%, i.e. 5% each)
- 2 policy reports posted on the Macroeconomic Policy Forum (MPF) (Weight: 10%, i.e. 5% each)
- Midterm exam (Weight 40%)
- Final exam (Weight: 40%)

On policy reports and discussion contributions:
Find an interesting policy issue recently covered by the media. The issue should be related to the topics we cover in this course. Provide the link(-s) to 1-3 key articles in the newspapers/media. Write a short policy report describing the issue (minimum 200, maximum 300 words) and explain and interpret the debate based on the material we cover in this course (minimum 200, maximum 300 words). So altogether 400-600 words. Post this as a news topic on e-learning/Macroeconomic Policy Forum. This has to be done individually. Each student has to post (at least) two such policy reports as new forum topics, each worth 5% of the final grade (total 10%).

- Attendance is mandatory and will be checked regularly.
- Given the concentration of material, you are encouraged to read the assigned chapters prior to lectures.
- The exam dates will be announced in due course
- Make-up for the midterm or final exam will be allowed only if there is a valid university excuse
- Homework assignments may be discussed among students. The final write-up must be a clear individual effort, however
- 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. No communication between students; books, notes or any other illegitimate aids or technical devices will be allowed during the exams.
- It is strongly recommended that students take every assignment and exam seriously. There is no chance to make up forforgone 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.

As is the case in all economics classes, mathematical notation and techniques along with graphical representations will be used extensively in this class. All efforts will be made to make mathematical and economic concepts comprehensible to students who do not have an economic background.

Course outline (12 weeks, Two lectures every odd week, one lecture every even week)  
(REQUIRED READINGS MARKED WITH AN ASTERISK “*”)  

Part I: Introduction to Macroeconomic Theory and Data  
Week 1:  
*Mankiw, Chapters 1 and 2  
Miles and Scott, Chapter 1  
Policy application:  
Understanding the data: The seasonal cycle and seasonal adjustment

Part II: The Economy in the Long Run  
Week 2:  
*Mankiw, Chapter 3  
Miles and Scott, Chapter 2  
Policy application:  
Crises and national budgets

Week 3:  
*Mankiw, Chapter 4 and 5  
Miles and Scott, Chapter 11  
Thomas Sargent, “The Ends of Four Big Inflations”, 1982  
(http://www.nber.org/chapters/c11452.pdf)  
Policy applications:  
Inflation in good and bad times, inflation and exchange rate regimes

HWA1 announced

Week 4:  
*Mankiw Chapter 6  
Borjas, Chapter 13  
Policy applications:  
Minimum wage  
Why does Europe have high unemployment rate?

Part III: Long-run Growth: The Economy in the Very Long Run
**Week 5:**
*Mankiw, Chapters 7 and 8
Miles and Scott, Chapters 3, 4, 5
Policy application:
  Migration, fertility and economic growth

Practice exercises posted on e-learning

**Week 6:**
WRAP UP

**Part IV: Business Cycles: The Economy in the Short Run**

**Week 7:**
*Mankiw, Chapters 9 and 10
Policy application:
  Flat tax rates and tax cuts

**Week 8:**
**MIDTERM EXAM**

*Mankiw, Chapter 11
Policy application:
  Managing slowdowns and crises

HWA 2 announced

**Week 9:**
*Mankiw, Chapters 12 and 13
Policy application:
  Active labor market policies and unemployment

**Part V: Macroeconomic Policy Issues: Monetary policy**

**Week 10:**
*Mankiw, Chapters 14 and 18.
Alan S. Blinder, “Central Banking in a Democracy,” Economic Quarterly (Federal Reserve Bank of Richmond), Fall 1996.  
Policy applications:
The Euro and economic fluctuations
Central banking in CEE

Part VI: Macroeconomic Policy Issues: Deficits, Debt, the Current Account and Social Security

Week 11:
*Mankiw, Chapter 15
Policy application:
  High skilled migration in the EU and social security harmonization
  Stability and Growth Pact

Practice exercises posted on e-learning

Week 12
WRAP UP

EXAM WEEK
FINAL EXAM (date yet to be set)