

## ***Macroeconomic Policy***

*Academic Year:* 2015/16

*Semester:* First

*Instructor(s):* Nuno Alves

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### *Course Description:*

The purpose of the course is to enable students to understand macroeconomic policy-making and to think systematically on macroeconomic policy issues. This will imply mastering several macroeconomic models and a number of instruments relevant for economic analysis. The course is mostly applied while based on a coherent theoretical foundation. The course will cover topics related with long-term growth, monetary policy, fiscal policy and macroprudential policy. Each topic will include a review of the available empirical evidence and of the institutional framework underlying macroeconomic policy decisions. Throughout the semester there will be a systematic discussion of contemporary macroeconomic developments and policy debates in class.

Prerequisites: Basic mathematical tools and an introductory macroeconomics course.

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### *Course Content:*

The topics to be covered during the course are the following:

1. Economic growth and fluctuations. The Solow growth model. Convergence and divergence. The role of institutions. Growth accounting and potential output. The output gap. Sources of economic fluctuations. Cyclical properties of macroeconomic time series. A time-series overview of the Great Recession.
2. The role of macroeconomic policy. A basic macroeconomic model with three equations (IS-MP-PC): the income-spending curve; the monetary policy rule; the Phillips curve. Understanding the dynamics of the model under different shocks and calibrations. The role of expectations. The zero lower bound and the liquidity trap. Modeling credit market disruptions. The use of models and the Lucas critique.
3. Monetary policy in practice. Does monetary policy matter? The science and art of monetary policy. Rules versus discretion. Channels of monetary policy transmission. The (evolving) monetary policy strategy of the ECB and the Fed. The monetary policy response to the Great Recession. Conventional and unconventional monetary policy. Monetary policy and income inequality.
4. Fiscal policy in practice. Does fiscal policy matter? Dynamic inconsistencies. Goals and instruments of fiscal policy. Redistribution policy. The fiscal policy response to the Great Recession. Fiscal multipliers and automatic stabilizers. Computing the cyclically adjusted primary balance. Public debt dynamics and sustainability. The European Union semester and the Fiscal Compact.



5. Macroprudential policy. Does financial stability matter? Credit cycles and financial crises. Goals and intermediate targets of macroprudential policy. The set of available instruments. The interaction between macroprudential, microprudential and monetary policies. The European institutional deepening in response to the Great Recession.

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Course Objectives:

At the end of the course students should be able to develop policy analysis and recommendations and actively engage in policy discussions over macroeconomic issues. Students should be able to discuss monetary, fiscal and macroprudential policy decisions within a coherent theoretical framework, based on solid empirical evidence and taking into account the prevailing institutional constraints.

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Grading:

During the semester each student will be asked to prepare a topic for policy debate in class and to write an editorial-style policy essay on that topic. The presentation and essay – coupled with the contributions to the policy debates in class – will weight 40 per cent in the final grade. The remainder 60 per cent will depend on a final exam.

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Bibliography:

The course does not follow a single book. The course material will consist of the slides distributed in class together with specific articles and chapters from reference textbooks.

A preliminary set of basic references is the following (additional references will be indicated throughout the course):

Blanchard, O. (1997), *Macroeconomics* [Chapters 27, 28 and 29]

Carlin, W. and S. Soskice (2015), *Macroeconomics – Institutions, Instability and the Financial System*, Oxford University Press, Oxford

Friedman, M. (1968), “The Role of Monetary Policy”, *American Economic Review*, 58 (March), pp. 1-17

Gaspar, V. and O. Issing (2011), *European Central Bank and Monetary Policy in the Euro Area*, The New Palgrave Dictionary of Economics.

Hume, D. (1985 [1752]), “Of Money”, in *Essays- Moral, Political and Literary*, Liberty Fund, Indianapolis

Romer, D. (1996), *Advanced Macroeconomics*, McGraw-Hill [Chapters 1 and 9]

Whelan, K. (2015), *Lecture Notes on Macroeconomics*, available at [www.karlwhelan.com/Macro2/Whelan-Lecture-Notes.pdf](http://www.karlwhelan.com/Macro2/Whelan-Lecture-Notes.pdf)



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Biography:

Nuno Alves has a PhD in Economics from Universidade Nova de Lisboa. He has been an economist at Banco de Portugal since 1995 and is currently Deputy Head of the Economics and Research Department. He has been a member of the Monetary Policy Committee of the Eurosystem since 2006. He has publications in journals such as Journal of Macroeconomics, Applied Economics and Applied Economics Letters. His research interests are in monetary policy, inequality and poverty.

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Contact(s) and Office hours:

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