

# Macroeconomic Policies

2018-2019, 1st Semester

## 1 Objective of the course

The objective of the course is to consolidate and enlarge macroeconomic concepts and models acquired by students in previous macro courses and illustrate their use for applied economic policy analysis and decision making. At the end of the course students should have a coherent conceptual framework to analyze current macroeconomic developments and discuss policy issues. The course has three main building blocks. Firstly, the determinants of long term economic growth and fluctuations are examined. Secondly, the macroeconomic models are revised and enlarged to include dynamic components and highlight the role of expectations and external linkages. Thirdly, the course discusses applied economic policy issues and current developments.

## 2 Course outline

### Economic Growth and Fluctuations

- Production function and the sources of growth
- Solow growth model
- Growth accounting and potential output
- Economic fluctuations and their causes
- High-frequency economic data and national accounts estimates

### Macroeconomic Models

- The IS-LM model (brief consolidation)
- The Mundell-Fleming model and co-ordination of policies
- Static aggregate demand and supply
- Labour market and expectations
- Dynamic aggregate demand and supply

## Economic Policy Analysis

- Monetary policy in practice
  - Money market interventions
  - Monetary policy transmission mechanism
  - The European Central Bank and the Federal Reserve
- Fiscal policy in practice
  - Budgetary process
  - Cyclically adjusted primary general government balances
  - Public debt dynamics
  - Stability and growth pact
- Structural policies
  - Product market regulation
  - Labour market regulation
  - Other structural policies

## 3 Evaluation

The evaluation is composed of three blocks: *i*) Practical evaluation (20%) *ii*) team assignments (30%) and *iii*) final exam (50%). The practical evaluation consists of two short quizzes to answer in class, including a multiple choice component. The team assignments comprise two reports to be delivered in specified dates: *a*) *An estimate of quarterly GDP growth for the Portuguese economy* and *b*) *An assessment on the output gap in euro area countries*. The estimate of Portuguese GDP growth for the 3rd quarter of 2018 is performed in real time and it is based on high-frequency data. The assessment on the output gap in euro area countries relies on yearly national accounts data. Groups should have four students (minimum of three and maximum of five). The final exam includes all topics covered in class and a minimum grade of 9 is required for passing.

## 4 Bibliography

The course does not follow one single book. The books by Mankiw (Macroeconomics, Worth Publishers) and Blanchard (Macroeconomics, Prentice Hall) are important to consolidate macroeconomic models and concepts. In addition, the book “The Portuguese economy in the context of economic financial and monetary integration”, edited by the Economics and Research Department of Banco de Portugal provides illustrations of tools for applied economic policy analysis. Furthermore, specific papers will be signalled along the course. Useful links for the assessment on the synchronization of business cycles in the euro area are:

[http://ec.europa.eu/economy\\_finance/db\\_indicators/surveys/time\\_series/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/surveys/time_series/index_en.htm)  
[http://ec.europa.eu/eurostat/web/sector\\_accounts/data/quarterly\\_data](http://ec.europa.eu/eurostat/web/sector_accounts/data/quarterly_data)