

INTRODUCTORY MACROECONOMICS (EC102)

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

Summer School Programme Area: Economics

LSE Teaching Department: Department of Economics

Lead Faculty (session two): TBC (Dept. of Economics)

Lead Faculty (session three): Dr Giulio Fella and Dr Francesco Zanetti

Pre-requisites: Working knowledge of mathematics (i.e. elementary calculus).

Course Aim:

This course aims to help you understand recent developments in macroeconomics using graphic analysis and simple algebra. We will study the stylised facts of business cycle fluctuations, economic growth and unemployment; discuss what light modern macroeconomics can shed on these facts; and finally evaluate the scope for policy to improve macroeconomic performance.

Course Content:

The first part of the course will cover the performance of the economy in the long-run and in particular the determination of national income, the determinants of long-run economic growth, inflation and unemployment, and economic pathologies such as persistent unemployment and hyperinflation. The second part of the course will cover the behaviour of the economy in the short run, including business cycle fluctuations, the design and effects of monetary and fiscal policy, budget deficits and government debt, and the open economy. The course will conclude with the study of the European Monetary Union and the Euro Crisis, and the Great Recession.

Assessment:

Two written examinations. In preparation for the examinations, the students will be given problem sets, the solutions to which will be discussed in class.

Summative assessment format:

Format and weighting: Two hour mid-session examination (50%)

Date: Thursday of week two

Results due: By Monday of week three

Format and weighting: Two hour final examination (50%)

Date: Friday of week three

Results due: By Thursday the following week

The precise time and location of the exams will be circulated during the programme.

Reading List

The main textbook for this course is:

- Gregory Mankiw, *Macroeconomics*, Ninth Edition (International Edition), Worth Publishers, 2016.

Another useful textbook for browsing data and case studies is

- Olivier Blanchard and David Johnson, *Macroeconomics*, Sixth Edition (Global Edition), Pearson, 2012.

Students without previous knowledge of economics may find it helpful to also consult a good economics introductory textbook, such as Gregory Mankiw, *Principles of Economics* (International Edition, South-Western, 2011) or Paul Krugman, Robin Wells & Kathryn Graddy, *Economics* (European edition, Worth Publishers, 2007).

There is a website for this course at <http://shortcourses.lse.ac.uk/>, where all the material is uploaded (lecture notes, problem sets, solutions, supplementary readings etc.).

Lecture notes will also be distributed to students at the beginning of the course.

Solutions to problem sets will be uploaded on the website after each class.

Syllabus

I. Introduction: *Concepts and Data*

- Brief overview of the course
- Macroeconomic variables and data
- Stylised facts of the world economy

Readings: Mankiw, chapters 1-2.

II. The Economy in the Long Run: *The building Blocks of the Macroeconomy.*

General Equilibrium

- The aggregate production function
- The determination and division of national income

- Components of aggregate demand
- Equilibrium in the goods market

Readings: Mankiw, chapter 3.

Money and Inflation

- Functions of money
- Money demand and the quantity theory of money
- Inflation and money growth; seigniorage; hyperinflation
- The costs of inflation
- Inflation and interest rates

Readings: Mankiw, chapters 4-5.

Labour markets and unemployment

- Stylized facts of modern labour markets
- Job search, labour market flows and the determination of frictional unemployment
- Wage rigidity and structural unemployment
- Labour market institutions

Readings: Mankiw, chapter 7

Economic growth

- The main facts of growth
- The Solow model of growth
- Endogenous growth models

Readings: Mankiw, chapters 8-9.

The Open Economy

- International trade and borrowing
- Nominal and real exchange rate
- Macroeconomic policy in the open economy
- Common currency areas and the European Monetary Union

Readings: Mankiw, chapter 6.

III. The Economy in the Short Run: *Business Cycle Fluctuations and Stabilisation Policy*

Economic Fluctuations and stabilisation policy

- Facts about business cycles
- Aggregate demand and aggregate supply
- Inflation and unemployment in the short run

Readings: Mankiw, chapters 10, 11, 12 and 14.

The evolution of stabilisation policy

- Practical problems of active policies
- The debate rules versus discretion
- Inflation targeting and Central Bank independence

Readings: Mankiw, chapter 18.

Government Debt

- Different views of government debt
- Fiscal sustainability

Readings: Mankiw, chapter 19.

Financial Intermediation (Time permitting)

- Money supply and the banking system
- Why credit markets are so important
- Asymmetric information and credit markets
- Financial regulation

Readings: Mankiw, chapter 20.

The credit crunch (Time permitting)

- Key facts about the credit crunch



- The economics behind the crash
- Perspectives

Readings: Lecture notes.

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