

Macroeconomic Environment and the Firm

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1. Course Outline

Macroeconomics is the study of the economy as a whole. It examines how basic aggregate magnitudes, such as total production, employment, consumption and investment are determined in an economy, which is affected by economic and political decisions in the rest of the world. It examines the problems of inflation and unemployment trying to provide answers. Furthermore, it studies the factors and the paths that lead to economic growth and prosperity.

The course will be separated in three parts. The first will deal with the short and medium run where the role of monetary and fiscal policy will be developed.

Unemployment and inflation are the main issues that will be examined and analyzed as well as the role of fiscal and monetary policy. The second part deals with the economy in the long run where the main focus will be on the factors that influence the growth of the economy and the role of the technological progress in the growth process. The third part deals with an open economy in which goods and financial assets are traded internationally and labor and capital are free to move.

An integral part of the course is the case studies that will be handed out. These studies deal with policy issues and empirical facts that link macroeconomic theory with real life that will help students to understand theory better and also explain some of the real phenomena.

2. Course objectives

The main objectives of the course are:

- To analyze the workings of the economy in the short run and supply students with the necessary tools and knowledge so as to understand real life phenomena.
- To help students understand the problems of inflation and unemployment, apprehend the role of expectations and be able to comprehend and criticize policy issues designed to correct these problems.
- To formally analyze a long run growth model that will explain to a large extent why some countries grow faster than others and also specify the factors that are responsible for high and sustainable growth.
- To examine and analyze the episodes of recessions and depressions in an economy as well as the policy measures taken to mitigate their effects on output and employment.
- To analyze the impact of the real world upon output and employment of a country which is small enough to affect the economic conditions in the rest of the world.

At the end of the course students will be able to answer questions such as: what determines inflation and unemployment? Why nominal interest rates rise with inflation? How important are expectations in an economy? Can the policy makers affect expectations? What the government can do to reduce inflation and unemployment? Why countries form unions and adopt common currencies? How fast and for how long can a country grow?

3. Textbooks and Reading

The main textbook of the course is:

O. Blanchard, “*Macroeconomics*”, Prentice Hall, 5th ed. 2010.

Students may wish to consult the following textbooks that cover the same material with the main textbook.

R. Dornbusch, S. Fischer and Startz, “*Macroeconomics*”, McGraw-Hill, 10th ed. 2007.

N. G. Mankiw, “*Macroeconomics*” Worth Publishers, 7th ed. 2010.

At a more advanced level with extensive use of mathematics is:

D. Romer, “*Advanced Macroeconomics*”, McGraw-Hill, 4th ed. 2011.

It is imperative for students to study thoroughly all case studies distributed in the class. The topics to be studied will be indicated by the instructor at the end of each class as the course proceeds.

Grading

There will be a term paper that will receive 40% of the final mark. The other 60% will be given by the final exam.

4. Detailed Schedule

Part 1: The Short and Medium run.

1st Week

- Introduction to Macroeconomics: Definitions and basic Concepts
 - The Goods Market: Demand and Equilibrium Output
- Chapters 1, 2, 3.

2nd Week and 3rd Week

- Financial Markets: The money Market and the Bond Market.
 - Goods & Financial Markets (IS-LM model): Equilibrium with Fixed Prices
- Chapters 4, 5.

4th Week

- The Labor Market: Wage Setting Process and Labor Market Equilibrium
 - Putting all Markets together (AS-AD model): Equilibrium with Flexible Prices
- Chapters 6, 7.

5th Week and 6th Week

- The Natural Rate of Unemployment and the Phillips curve: The trade off
 - Inflation, Activity and Nominal Money Growth: Okun’s law and Disinflation.
 - Policy, Expectations and Credibility
- Chapters 8, 9, 24.

Part 2: The Long Run

7th Week and 8th Week

- The Facts of Growth: The Production Function and the Sources of Growth
- Capital Accumulation and Growth: Steady State Output and the Golden Rule
- Technological Progress and Growth: Convergence between Nations, Research and Development

Chapters 10, 11, 12

Part 3: The Open Economy

9th Week and 10th Week

- Openness in Goods & Financial Markets: Nominal and Real Exchange Rates, The balance of Payments
- The Goods Market in an Open Economy: Internal and External Balance

Chapters 18, 19.

11th Week and 12th Week

- Output, the Interest Rate, & the Exchange Rate: Goods and Financial Markets Equilibrium, Fiscal and Monetary Policy
- Exchange Rate Regimes: Fixed versus Flexible Exchange Rates, Optimal Currency Area.

Chapters 20, 21.

13th Week

Final Review