

MACROECONOMICS I

Degree(s)	: Economics
Type	: Compulsory course unit
Curricular year/semester	: 2nd year / 1st Semester
ECTS / hours per week	: 6 ECTS / 4.0 Hours
Workload per week	: 2 Theoretical x 1 Hour + 1 Practical x 2 Hours
Teacher responsible	: Professor Jorge Manuel de Azevedo Henriques dos Santos

OBJECTIVES

- Study of Macroeconomics at an intermediate level.
- Use of examples from the portuguese and european economies.
- Enable the students to read and criticise the specialized economic press, such as "The Economist".

PROGRAM

I. Aggregate Demand, Equilibrium Income and Output

1. Structural form for the Keynesian model with government
2. Public-consumption, taxes, and transfers multipliers
3. Government budget and the Haavelmo theorem
4. Budget-balance multipliers
5. Automatic stabilisers

II. The IS-LM model. Fiscal Policy and Crowding Out

1. Investment and interest rates
2. The IS curve
3. Money demand and supply
4. The LM curve
5. Simultaneous equilibrium in product and money markets
6. Liquidity trap
7. The classical case
8. Fiscal policy and crowding out
9. Budget deficits and public debt. Financing budget deficits

III. Aggregate Demand and Supply: an Introduction

1. Deriving the aggregate-demand curve
2. Aggregate-demand curve. Special cases
3. The interaction between aggregate demand and supply curves

IV. Aggregate Supply, Inflation, and Unemployment

1. Concepts and measurement
2. Labour market and aggregate supply
 - a) Wage-rate determination
 - b) Price-level determination
 - c) Natural rate of unemployment
3. Aggregate supply
 - a) Deriving the aggregate-supply function and its properties
 - b) Aggregate supply and expectation formation. Adaptive and rational expectations
4. Aggregate demand and supply
 - a) Monetary expansion
 - b) Supply shocks
5. Inflation and unemployment
 - a) Original and expectations-augmented Phillips curve
 - b) The costs of disinflation
 - c) Short- and long-run Phillips curves

V. Consumption and Savings

1. Kuznets paradox
2. The life cycle-permanent income hypothesis
3. The consumption function and expectations
4. Liquidity constraints

VI. Investment

1. Net present value and internal rate of return of investment projects
2. The simple-accelerator model
3. Neoclassical theory and the flexible-accelerator model

VII. Introducing Expectations in the IS-LM Model

1. Expectations and consumption, and investment decisions. Effects on the IS curve
2. Monetary policy, expectations, and output
3. Non-Keynesian effects of fiscal policy

VIII. The Open-Economy (fixed-price) IS-LM Model

1. Balance of payments, exchange-rate regimes, and international capital mobility
2. Absence of international capital mobility
 - a) Fixed exchange rates

- b) Flexible exchange rates
- 3. Perfect international capital mobility (the Mundell-Fleming model)
 - a) Fixed exchange rates
 - b) Flexible exchange rates
 - c) Fiscal and monetary policy effectiveness

IX. Money Supply

- 1. Money stock, central-bank money, and money multiplier
- 2. Instruments of monetary control
- 3. Exchange-rate intervention and sterilisation
- 4. Conducting monetary policy

X. Open Economy with Flexible Prices

- 1. Power-purchasing parity
- 2. Uncovered interest parity
- 3. Fixed exchange rates
 - a) Exchange-rate expectations, aggregate demand and supply
 - b) Effects of fiscal and monetary policies
- 4. Flexible exchange rates with adaptive exchange-rate expectations
 - a) Aggregate demand and supply curves
 - b) Effects of fiscal and monetary policies
- 5. Flexible exchange rates with rational exchange-rate expectations
 - a) Aggregate demand and supply curves
 - b) Analysing a monetary expansion. Overshooting

BIBLIOGRAPHY

Recommended Bibliography:

- [Blanchard, O., Amighini, A. & Giavazzi, F., *Macroeconomics. A European Perspective*, 2nd edn., Harlow: Pearson, 2013](#)

Optional Bibliography:

- [Abel, A., Bernanke, B. & Croushore, D., *Macroeconomics - Global Edition*, 8th edn., Harlow: Pearson, 2014](#)
- [Burda, M. & Wyplosz, C., *Macroeconomics, a European Text*, 6th edn., Oxford: Oxford University Press, 2013](#)
- [Carlin, W. & Soskice, D., *Macroeconomics, Imperfections, Institutions and Policies*, Oxford: Oxford University Press, 2006](#)
- [Dornbusch, R., Fischer, S. & Startz, R., *Macroeconomics*, 12th edn., New York: McGraw-Hill, 2014](#)
- [Santos, J., *Consumo, As Teorias do Rendimento Permanente e do Ciclo de Vida*, Mimeo ISEG da ULisboa, 1998](#)
- [Santos, J., Pina, A., Braga, A. & St. Aubyn, M., *Macroeconomia*, 3ª ed., Lisboa: Escolar Editora, 2010](#)