Course program and reading list

Semester 1 Year 2023

School: Arison School of Business MA in Financial Economics

Macroeconomics 1

Lecturer:

Prof. Zvi Hercowitz zvi.hercowitz@runi.ac.il

Tutors:

Prof. Zvi Hercowitz zvi.hercowitz@runi.ac.il

Teaching Assistant:

Mr. Sagi Sasson sagi.sasson@post.runi.ac.il

Course No.:	Course Type :	Weekly Hours :	Credit:
29003	Lecture	4	2

Course Requirements :	Group Code :	Language:
Final Exam	1207231	English

Course Description

I. List of Topics in the Course:

1. Household decisions: Consumption.

(a) Consumption and saving over time - exogenous income, infinite horizon, time-separable preferences.
(b) Consumption and saving responses to permanent and transitory income shocks, as well as to preference shocks.

2. The small-open economy and the closed economy

(a) The one-good small open-economy model. The *inter*temporal approach to the Balance of Payments. Current account and financial account responses to permanent and transitory shocks to productivity and to the demand for goods.

(b) The two-goods small open-economy. The *intra*temporal approach to the Balance of Payments and the real exchange rate. Central Bank intervention in the foreign exchange market and the real exchange rate in a real framework.

(c) Closing the model: Basic interest rate determination. Interest rate responses to permanent and transitory shocks, and to expected future shocks.

3. Economic activity, inflation and monetary policy in the closed economy. The closed-economy New Keynesian model.

(a) Determination of output, inflation and the interest rate. 3 variables/3 equations/3 shocks model:
i. The Euler equation - adopted from the consumption discussion.
ii. The Phillips equation - discussion of monopolistic competition with stochastic price changes.
iii. The Taylor rule equation - empirically descriptive decision rule of the Central Bank for the nominal interest rate.

(b) Responses of the 3 variables to the 3 shocks (to the demand for goods, production costs, and monetary policy). The analysis is conducted at the diagrammatic, algebraic and intuitive levels.

4. The exchange rate, economic activity, inflation and monetary policy in the open economy. The open-economy New Keynesian model.

(a) We add one variable (the exchange rate), one equation (uncovered interest parity, UIP), and one shock (country risk) to the closed-economy model.
(b) Responses to the different shocks. Risk shocks with and without a negative effect on firms behavior - diagrammatic, algebraic and intuitive solutions.
(c) Fixed exchange rate - no independent monetary policy (country in the Eurozone). The demand shock multiplier compared to the flexible exchange rate economy.
(d) Deviations from the model: Quantitative easing and foreign exchange market intervention in a monetary framework.

II. Classes and material:

The material for discussion will be posted in the course site prior to each class. Please download this material to have it during class. The main part of the material will appear on the slides to be used in the class discussion. The material also includes complementary notes to the slides, and extensions during the discussions.

III. Homework:

Five problem sets will be assigned during the course. Submitting at least four of them is required. Homework will be discussed in class and graded by Elad. These assignments can be submitted either individually or in pairs.

Course Goals

This course introduces you to advanced macroeconomic analysis, focusing both on elements of macroeconomic theory and on understanding practical issues of monetary policy and the determination of the interest rate and the exchange rate.

To analyze these issues, we use the Neoclassical framework for the analysis of the behavior of households and firms, and for the analysis of monetary policy we use the New Keynesian framework.

Grading

The grade will be computed with 90% weight to the final exam, and 10% weight to the homework.

Learning Outcomes

The learning outcomes are discribed in the course goals.

Lecturer Office Hours

Professor Zvi Hercowitz - by email appointment

zvi.hercowitz@runi.ac.il

Teaching Assistant

Sagi Sasson

Reading List

Background bibliography

Lars Ljungqvist and Thomas Sargent, "Recursive Macroeconomic Theory", MIT University Press, 2004.

Jordi Gali, "Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework", Princeton U. Press, 2008.