ECON714

Applied Macroeconomic Policy

S1 Evening 2019

Dept of Economics

Contents

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General Information

Unit convenor and teaching staff
Unit Convenor
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4ER(E4A) 432
TBA on iLearn

Credit points
4

Prerequisites
Admission to MRes

Corequisites

Co-badged status
ECON914

Unit description
The objective of this unit is to investigate macroeconomic policies that are important to the aggregate economy. These policies may include monetary policies, fiscal policies, macro-prudential policies and exchange rate policies. We will use the workhorse models in macroeconomics to analyse the implications of these policies. Issues in policy designs are then discussed, particularly in regard to the global financial crisis of 2008–2009. Industry researchers will be engaged to discuss the industry perspective on these policies.

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at https://www.mq.edu.au/study/calendar-of-dates

Learning Outcomes

On successful completion of this unit, you will be able to:

Understand key macroeconomic policies, their objectives and instruments.

Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).

Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

General Assessment Information

No extensions on within-session assessments will be granted for all assessments listed below. Students who have not submitted the task prior to the deadline will be awarded a mark of 0 for the task, except for cases in which a formal application for Special Consideration is made (via http://www.ask.mq.edu.au/) and approved. If the application is successful, the missed assessment will be replaced by an supplementary test, which could involve an oral test.

Assessment Tasks

Name	Weighting	Hurdle	Due
1. Mid Semester Examination	20%	No	Week 7 (11 April 6pm)
2. Essay	10%	No	Week 10 (16 May 6pm)
3. Mini Research Workshop	20%	No	Week 12 (30 May 6pm)
4. Final Examination	50%	No	6 June in Class (6pm)

1. Mid Semester Examination

Due: **Week 7 (11 April 6pm)**
Weighting: **20%**

Two-hour exam on 11 April, 6pm in the lecture room. The mid-session test will be closed-book. It will involve multiple choice questions, essay questions or small problems based on topics studied in the course.

On successful completion you will be able to:

- Understand key macroeconomic policies, their objectives and instruments.
- Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).

2. Essay

Due: **Week 10 (16 May 6pm)**
Weighting: **10%**

You will be given a set of news paper articles that broadly related to macroeconomic policies. Choose one of the article, analyse the economic reasoning behind it and critically evaluate the article using the knowledge you learnt in the unit.

Format: 1000 words limit, 12 point, 1.5 line spaces, A4. Please note you will get zero for the essay if you do not hand-in before the due date. You need to hand a hard copy during the lecture on 16 May, and also a softcopy to Turnitin through your iLearn unit webpage.

This Assessment Task relates to the following Learning Outcomes: • Comprehend what drives the relationships between key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices) that should be a part of every manager's information set. • Establish and discuss the design and constraints of monetary and macroprudential regulation policy; in normal times and during a crisis. • Communicate the economic analysis of selected policies.

On successful completion you will be able to:

- Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).
- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

3. Mini Research Workshop

Due: **Week 12 (30 May 6pm)**
Weighting: **20%**

You will be allocated in a group in week 1. You need to choose a topic that interests you that broadly relates to macroeconomic policies, and consult with your unit convenor about your choice by week 3. If you fail to do so you will lose all the marks for this assessment. If there is more than one group that wants to present on the same topic, then the topic will be allocated to the group that first emailed their choice to the unit convenor. Each group will have 30 minutes to present, followed by 5-10 minutes discussion with your fellow students and the lecturer. If you choose a topic that relates to an event, please discuss the background, how the event evolved over time and what were the policies implemented. If you choose a topic that relates to an issue, please introduce the background of the issue. Regardless of your topic, you should discuss potential policy implications and your understanding of the topic. All members of the group are expected to conduct part of the presentation and participate in the discussion.

This assessment accounts for 20% of the total mark. Out of this 20%, 15% will be allocated to the presentation and 5% will be allocated to the class participation, eg: discussions on others' presentations. To secure this 5%, those who participated in the discussion of others' presentations need to record their name and ID with the lecturer at the end of lecture.

The actual presentation will take place in weeks 12 in the lecture. However, **all groups need to email their presentation slides to the unit convenor by 5pm on Tuesday in week 12 (28th May)**. The following list contains a sample of topics that may interest you:

- Unconventional monetary policies and their effect
- Monetary policy and macroeconomic uncertainty
- Monetary policy and asset prices
- The effectiveness of Fiscal Policies
- Government debt and the economy
- Optimal currency area and the euro

- Fix or float the exchange rate?

On successful completion you will be able to:
- Understand key macroeconomic policies, their objectives and instruments.
- Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).
- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

4. Final Examination

Due: **6 June in Class (6pm)**
Weighting: **50%**

The end-of-session exam will be closed-book, held in Week 13 in class. Details of the exam will be discussed in Week 12.

On successful completion you will be able to:
- Understand key macroeconomic policies, their objectives and instruments.
- Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).
- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

Delivery and Resources

Required and Recommended Texts and/or Materials

There is no required textbook for this course. However, some lectures may be based on chapters from following books:

Olivier Blanchard & Jeffrey Sheen Macroeconomics Pearson, 4th Australasian edition, 2013

Jordi Gali, Monetary Policy, Inflation and the Business Cycle, Princeton Press, Second edition 2015

Michael Wickens Macroeconomic Theory Princeton Press, 2008

Carl E Walsh, Monetary Theory & Policy MIT Press, 3rd ed , 2010

Unit Web Page

You can access the ECON914/714 web site on iLearn from anywhere on the Internet. To login you need a Username and password. All lecture slides should be available on the iLearn site at

least by midday of the lecture.

Unit Schedule

Topic 1 (Week 1-3). *Quick refresher on ISLM, ASAD and dynamic macroeconomic models; the role of expectations in financial markets and policy analysis under these models*

- Blanchard & Sheen 2013 Chapters 3-9,14-17. Gali Chapter 3;
- Hall, Robert E. (2010). "Why Does the Economy Fall to Pieces after a Financial Crisis?" Journal of Economic Perspectives, 24(4): 3–20. www.aeaweb.org/issue.php?journal=JEP&volume=24&issue=4
- Blanchard, Olivier, Giovanni Dell'Ariccia, and Paolo Mauro (2010) "Rethinking Macroeconomic Policy" IMF Staff Position Note, February, www.imf.org/external/pubs/cat/longres.cfm?sk=23513.0

Topic 2 (Week 4-5). *The design and implementation of monetary policies; unconventional monetary policy instruments; the optimal monetary policy;*

- Blanchard & Sheen 2013 Chapters 24, Wickens Chapter 13, Gali Chapter 4-5
- Stevens, Glenn et al (2010) "Fifty Years of Monetary Policy: What Have We Learned?", Bank for International Settlements, RBA Anniversary Conference: www.rba.gov.au/publications/confs/2010/index.html
- Taylor, John (2009) "The financial crisis and the policy responses: an empirical analysis of what went wrong" www.nber.org/papers/w14631,
- Curdia, V. and M. Woodford (2010) "The Central Bank Balance Sheet as an Instrument of Monetary Policy" ideas.repec.org/p/clu/wpaper/0910-16.html
- Woodford, Michael "Financial Intermediation and Macroeconomic Analysis." Journal of Economic Perspectives, 24(4): 21–44.
- Argy, V., Brennan, A. and Stevens, G., 1990. Monetary targeting: The international experience. *Economic Record*, *66*(1), pp.37-62. (https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1475-4932.1990.tb02084.x)
- Clarida, Richard, Jordi Gali, and Mark Gertler (1999) "The science of monetary policy: A new Keynesian perspective," *Journal of Economic Literature*, 37(4), 1661–1707.

Topic 3 (Week 6). *The design and implementation of macroprudential regulation*

- Jaime Caruana (2010) "Financial Stability: 10 Questions and About Seven Answers", Bank for International Settlements, RBA Anniversary Conference: www.rba.gov.au/publications/confs/2010/index.html
- Stevens, Glenn (2011) "The role of finance" *The Economic Record*, March, pp. 1-11. (https://onlinelibrary.wiley.com/doi/full/10.1111/j.1475-4932.2010.00710.x)

- Financial Stability Review (March 2012), RBA www.rba.gov.au/publications/fsr/2012/mar/pdf/0312.pdf

- Borio, C. and P. Lowe (2002) "Asset Prices, Financial and Monetary Stability: Exploring the Nexus". BIS Working Papers, No. 114.

- Trichet, J.C. (2009) Systemic Risk. Clare Distinguished Lecture in Economics and Public Policy. University of Cambridge,

- Nier, Erlend W., Jacek Osiński, Luis I. Jácome, and Pamela Madrid (2011) "Institutional Models for Macroprudential Policy" www.imf.org/external/pubs/ft/sdn/2011/sdn1118.pdf

Topic 4 (Week 8-9). *The design and implementation of fiscal policies; government debt and inflation; the intertemporal government budget constraint.*

- Blanchard & Sheen 2013, Chapters 23; Wickens Chapter 5-6

- Cochrane, John (2011) "Understanding fiscal and monetary policy in the great recession: Some unpleasant fiscal arithmetic." *European Economic Review*, January 55, 2-30

- Batini, N., Eyraud, L., Forni, L. and Weber, A., 2014. Fiscal multipliers: Size, determinants, and use in macroeconomic projection*s* (No. 14). *International Monetary Fund*. (https://www.imf.org/external/pubs/ft/tnm/2014/tnm1404.pdf)

- Ilzetzki, E., Mendoza, E.G. and Végh, C.A., 2013. How big (small?) are fiscal multipliers?. *Journal of monetary economics*, *60*(2), pp.239-254. (https://www.sciencedirect.com/science/article/pii/S030439321200116X)

Topic 5 (Week 10). *The design and implement of exchange rate policies; The impossible trinity; Optimal currency areas and the euro;*

- Blanchard & Sheen 2013 Chapters 18-21

- Alesina, A., Barro, R.J. and Tenreyro, S., 2002. Optimal currency areas. *NBER macroeconomics annual*, *17*, pp.301-345. (https://www.journals.uchicago.edu/doi/abs/10.1086/ma.17.3585292)

- Obstfeld, M. and Rogoff, K., 1995. The mirage of fixed exchange rates. *Journal of Economic perspectives*, *9*(4), pp.73-96. (https://www.aeaweb.org/articles?id=10.1257/jep.9.4.73)

- Frankel, J., 2006. On the yuan: The choice between adjustment under a fixed exchange rate and adjustment under a flexible rate. *CESifo Economic Studies*, *52*(2), pp.246-275. (https://academic.oup.com/cesifo/article/52/2/246/293957)

 Topic 6 (Week 11). *The evolution of macroecnomic policy thinking; coordination between monetary and fiscal policy; assets price and monetary policy; the real effect of macroprudential policies;*

- Stiglitz, J.E., 2011. Rethinking macroeconomics: What failed, and how to repair

it. *Journal of the European Economic Association*, *9*(4), pp.591-645.
(https://academic.oup.com/jeea/article/9/4/591/2316844)

- BLANCHARD, O., DELL'ARICCIA, G.I.O.V.A.N.N.I. and MAURO, P., 2010. Rethinking Macroeconomic Policy. *Journal of Money, Credit and Banking*, *1*(42), pp.199-215. (https://onlinelibrary.wiley.com/doi/full/10.1111/j.1538-4616.2010.00334.x)

- Laurens, B. and De La Piedra, E., 1998. Coordination of monetary and fiscal policies.(https://www.imf.org/external/pubs/ft/wp/wp9825.pdf)

- Blinder, A.S., 1982. Issues in the coordination of monetary and fiscal policy. (https://www.nber.org/papers/w0982.pdf)

- Mishkin, F.S., 2001. *The transmission mechanism and the role of asset prices in monetary policy* (No. w8617). National bureau of economic research.(https://www.nber.org/papers/w8617.pdf)

- Gilchrist, S. and Leahy, J.V., 2002. Monetary policy and asset prices. *Journal of monetary Economics*, *49*(1), pp.75-97. (https://www.sciencedirect.com/science/article/pii/S0304393201000939)

Policies and Procedures

Macquarie University policies and procedures are accessible from Policy Central (https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- Academic Appeals Policy
- Academic Integrity Policy
- Academic Progression Policy
- Assessment Policy
- Fitness to Practice Procedure
- Grade Appeal Policy
- Complaint Management Procedure for Students and Members of the Public
- Special Consideration Policy *(**Note:** The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.)*

Undergraduate students seeking more policy resources can visit the Student Policy Gateway (https://students.mq.edu.au/support/study/student-policy-gateway). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit Policy Central (https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central).

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: https://students.mq.edu.au/study/getting-started/student-conduct

Results

Results published on platform other than eStudent, (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in eStudent. For more information visit ask.mq.edu.au or if you are a Global MBA student contact globalmba.support@mq.edu.au

Student Support

Macquarie University provides a range of support services for students. For details, visit http://students.mq.edu.au/support/

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- Workshops
- StudyWise
- Academic Integrity Module for Students
- Ask a Learning Adviser

Student Services and Support

Students with a disability are encouraged to contact the Disability Service who can provide appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

If you are a Global MBA student contact globalmba.support@mq.edu.au

IT Help

For help with University computer systems and technology, visit http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/.

When using the University's IT, you must adhere to the Acceptable Use of IT Resources Policy. The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of

knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

Learning outcomes

- Understand key macroeconomic policies, their objectives and instruments.
- Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).
- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

Assessment tasks

- 1. Mid Semester Examination
- 2. Essay
- 3. Mini Research Workshop
- 4. Final Examination

PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

Learning outcomes

- Understand key macroeconomic policies, their objectives and instruments.
- Comprehend the relationship between macroeconomic policies and key macroeconomic indicators (e.g. inflation, growth, interest rates, stock market indices).
- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

Assessment tasks

- 1. Mid Semester Examination
- 2. Essay
- 3. Mini Research Workshop
- 4. Final Examination

PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

Learning outcome

- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

Assessment tasks

- 1. Mid Semester Examination
- 2. Essay
- 3. Mini Research Workshop
- 4. Final Examination

PG - Effective Communication

Our postgraduates will be able to communicate effectively and convey their views to different social, cultural, and professional audiences. They will be able to use a variety of technologically supported media to communicate with empathy using a range of written, spoken or visual formats.

This graduate capability is supported by:

Learning outcome

- Analyse the dynamic path of key economic variables in response to macroeconomic policies and be able to communicate the analysis to diverse audience.

Assessment tasks

- 2. Essay
- 3. Mini Research Workshop