

SUBJECT:	<b>Advanced Economics</b>	
HOURS:	<b>45</b>	ECTS:
semester		Academic year

Name/title of the author:	
Course Description:	<p>Advanced Economics is a course that is addressed to MA students who are willing to learn more about the functioning of an economy, macroeconomic processes, phenomena and relations, and want to be more conscious participants of economic life.</p> <p>The course is focused on economic fluctuations, economic growth and role of economic policy as a tool of macroeconomic stabilization.</p> <p>The emphasis is put on international linkages and microfoundations of main macroeconomic relations and processes.</p>
Learning Outcomes (Goals and Objectives of the course):	<p>After taking part in the course the student:</p> <ul style="list-style-type: none"> <li>▫ knows main economic theories that explain functioning of an open economy and knows microeconomic fundamentals of central macroeconomic relations and processes</li> <li>▫ understands phenomena that took place in an open economy, is able to interpret them and understands trade-offs and constraints in macroeconomic policy under alternative exchange rate regimes</li> <li>▫ can correctly identify dilemmas that are characteristic for a macroeconomic policy in an open economy, can indicate micro- and macroeconomic consequences of policy choices and can competently select arguments in a debate on socio-economic phenomena</li> </ul>
Entrance qualifications:	<p>Although courses in introductory macroeconomics and microeconomics are not formal prerequisites it is strongly recommended to take part in them first.</p> <p>Some basic mathematical and statistical tools will be used so students are encouraged to refresh their knowledge in these areas.</p>
Course Content:	<p>LECTURES (30 hours)</p> <ol style="list-style-type: none"> <li><b>1. Introduction to advanced economics:</b> definitions of economics, main economic phenomena, short-, medium-, and long-run analyses, methodological issues: model, endogenous and exogenous variables, behavioural equations, identities, equilibrium conditions, reality of assumptions.</li> <li><b>2. Economic activity measurement in an open economy and international comparisons:</b> actual, natural, nominal, and real GDP, social and individual preferences and international comparisons, importance of price diversification for international comparisons: concept of purchasing power parity, Big Mac index, countries classification based on GDP corrected for price diversification (the World Bank).</li> <li><b>3. The goods market in an open economy:</b> nominal and real exchange rate, equilibrium, multiplier effect, depreciation and net exports, J-curve, Marshall-Lerner condition, coordination of budgetary and exchange rate policies.</li> </ol>

- 4. Financial markets and monetary policy:** definitions of money, supply of and demand for money, equilibrium in financial markets, market interest rates and policy rate set by the central bank, alternative monetary policy strategies.
- 5. The goods market and financial markets in an open economy:** balance of payments, equilibrium in the foreign exchange market, uncovered interest rate parity (UIP) condition, exchange rate regimes, IS-LM-UIP model, macroeconomic trilemma, macroeconomic policy in fixed versus floating exchange rate regime, global financial crisis and resilience of emerging market economies.
- 6. Microeconomic foundations of aggregated supply:** wage setting mechanism and price setting mechanism under perfect and imperfect competition, WS-PS model, natural rate of unemployment.
- 7. Medium-term equilibrium and adjustment processes in an open economy:** natural output and natural unemployment rate, AS-AD model, demand and supply shocks, effects of budgetary and monetary policies in the medium-term under fixed and floating exchange rate regime, overshooting effect.
- 8. Dynamic model of macroeconomic equilibrium:** inflation and unemployment, Phillips curves: original and expectations augmented, wage indexation, deflation, Okun's law, model of inflation-unemployment-economic activity, disinflation policy, sacrifice ratio, Lucas critique, staggered wage contracts.
- 9. Economic growth in the long-term:** microeconomic determinants of economic growth, neoclassical model of economic growth, macroeconomic policy, convergence hypothesis, role of technological progress.

#### PROBLEM SESSIONS (15 hours)

- 1. Economic activity measurement in an open economy and international comparisons:** empirical determination of natural GDP, relations between nominal and real GDP, simple approach to purchasing power parity (PPP), determination of Big Mac index, exchange rate misalignment and PPP, analysis of countries classification based on GDP corrected for price diversification.
- 2. Short-term equilibrium in an open economy:** saving in an open economy, stabilization policy vs. budgetary discipline, fiscal multipliers and import penetration.
- 3. Equilibrium in financial markets and alternative monetary policy strategies:** monetary aggregate targeting vs. interest rate targeting.
- 4. Budgetary, monetary and exchange rate policies and the IS-LM-UIP model:** instruments of budgetary, monetary and exchange rate policies, effects of expansionary and contractionary policies under fixed and floating exchange rate regimes.
- 5. Wage setting and price setting in the medium-term:** WS-PS model, natural unemployment rate and equilibrium in labour market.
- 6. Real and nominal adjustments in the medium-term under fixed and floating exchange rate regimes:** adjustments to demand and supply shocks, adjustment to external shocks (trade and financial shocks), effectiveness of macroeconomic policy.
- 7. Dynamic approach to macroeconomic policy:** model of inflation-unemployment-economic activity, disinflation policy,

sacrifice ratio.

**8. Long-term determinants of economic growth:** capital accumulation and technological progress.

Final grades will be based on the results of written exam (at the end of the semester) and work at the problem sessions (during the semester) according to the following rule:

Total percentage points	Grade
< 100; 90 >	5.0
< 81; 90 )	4.5
< 72; 81 )	4.0
< 63; 72 )	3.5
< 54; 63 )	3.0
< 0; 54 )	2.0

Total percentage points are percentage points earned for the work during the semester plus percentage points earned at the exam. The maximal number of points to be earned at the exam is 94.

Percentage points for the work at the problem sessions are granted for submitted solutions of assigned problems. In order to receive such a percentage point student is supposed to:

Percentage points for the work at the problem sessions are granted for submitted solutions of assigned problems. In order to receive such a percentage point student is supposed to:

- attend a class
- submit her or his solution on time i.e. *before* the class starts
- write the solution (no printouts or photocopies allowed)
- submit her or his solution on an A4 sheet of paper which is supposed to be neat and tidy
- be ready to present the problem and the suggested solution

Please remember that it is not allowed to submit any solutions at the end of the course.

Problems are available on the Moodle platform:

<https://e-uczelnia.uek.krakow.pl/login/index.php?lang=en>

The *minimal* required number of points for the work at the problem sessions is 6. Students who do not meet this requirement will not be allowed to take either the exam or the re-sit exam.

A re-sit exam cannot be scheduled *before* the end of the regular exam session (which is set by the Rector).

All classes are obligatory. In a case of an absence student is required to present the relevant justification within the 7 days from the cessation of the cause that justified the absence.

Assessment policy  
(examination):

Course  
materials/bibliography:

REQUIRED READING

Blanchard, Olivier (2011, updated edition or more recent), *Macroeconomics*, Pearson Prentice Hall, Upper Saddle River, New Jersey (main textbook).

COMPLEMENTARY READING

Snowdon, Brian, Vane, Howard and Wynarczyk, Peter (1994), *A Modern Guide to Macro-economics. An Introduction to Competing Schools of Thought*, Edward Elgar Publishing Limited.

Acocella, Nicola (1998), *The Foundations of Economic Policy. Values and Techniques*, Cambridge University Press, Cambridge; chapters 13-18.

Romer, David (2000), Keynesian Macroeconomics without the LM Curve, *Journal of Economic Perspectives* 14(2): 149–69.

Woodford, Michael (2009), Convergence in Macroeconomics: Elements of the New Synthesis, *American Economic Journal: Macroeconomics* 1(1): 267-79.

Articles from various economic journals.

Methods of Instruction:

lectures and problem sessions