

EC2B1, Macroeconomics II

Lent 2022-23

Professor: Benjamin Moll, b.moll@lse.ac.uk

Office Hours and Location: Thursday, 10:30am-11:45am, 32LIF 1.19

Course Manager: Yannick Schindler Y.Schindler@lse.ac.uk

Class Teachers: see Moodle

Lecture and Class Schedule:

Lecture: Monday, 9:00-11:00, Old Theatre

Classes: see Moodle and LSE Timetable

Prerequisites: Microeconomics I (EC1A1) and Macroeconomics I (EC1B1), or equivalent. Quantitative Methods (Mathematics) (MA107) or Mathematical Methods (MA100), or equivalent.

This is a course in *modern* macroeconomics of the type practiced in current academic research. This means a unified approach to macroeconomics which is based on microfoundations and general equilibrium taking into account possible market imperfections. We will study economic choices that are key for macroeconomic developments, such as the consumption-savings decision, the labour-leisure decision, and the investment decision. These are the building blocks for some models with which we can study the behaviour of aggregate variables as well as the role of economic policies.

The course makes extensive use of mathematics, mainly differential calculus and constrained optimization, at a similar level to that taught in MA100 and MA107 and used in EC1A1 and EC2A1. This allows both a deeper analysis of the microeconomic foundations of macroeconomic theory, and a more quantitative analysis of the models presented. Knowledge of advanced microeconomics at the level of EC1A1 is extremely useful so you are encouraged to revisit those notes. The same applies to your notes on constrained optimization using Lagrangean methods as covered in MA100 or MA107.

Textbooks: Unfortunately, there exists no textbook with the proper level and focus for this course. Instead, it will rely on lecture notes and research journal articles. That being said, the following textbooks may be useful as background reading (given the extortionate prices of textbooks these days, I want to emphasize that these are not required):

- **Kurlat, Pablo, *A Course in Modern Macroeconomics***
self-published at <https://sites.google.com/view/pkurlat/a-course-in-modern-macroeconomics>
(reasonably priced, will also post PDF excerpts on Moodle)
- Jones, Chad, *Macroeconomics* – one of your books from EC1B1
- Romer, David, *Advanced Macroeconomics*
- Williamson, Stephen, *Macroeconomics*
- Abel, Andrew and Ben Bernanke and Dean Croushore, *Macroeconomics*

Additionally, readings from the popular press (The Economist, Financial Times, etc) may be assigned (and may be tested on the exam).

Problem Sets: Each week an assignment will be handed out and discussed in the course classes. You will be given feedback on two, that for week 4 (problem set #3) and week 10 (problem set #9). Hand-in assignments are due at the start of your class that week and are to be submitted via Moodle. The class teachers are responsible for the problem sets. Therefore, ALL QUESTIONS related to the problem sets should be submitted to the class teachers.

Assessment:

Exam (70%, duration: 3 hours, reading time: 15 minutes) in the summer exam period.

Project (30%, 2500 words) in the LT.

Special Notes: Lecture participation and attendance to classes are both strongly encouraged. Also see all the useful tips on Wouter den Haan's MT syllabus.

Course Outline

	Topic
Section 1	Welcome and Overview, Labor Demand and Supply
Section 2	A Simple Macro Model, Equilibrium and Welfare Theorems
Section 3	The West without Russian Gas
Section 4	Consumption, Saving, Interest Rates
Section 5	Investment and Capital Accumulation
Section 6	Business Cycle Macro, Real Business Cycle Model
Section 7	New Keynesian Model I
Section 8	New Keynesian Model II
Section 9	The Financial Crisis, Asset Bubbles
Section 10	Unemployment (Pissarides), Inequality in Macro