



APPLIES TO ACADEMIC YEAR 2012/2013

SØK 1366 Macroeconomics II

Programme

Bachelor of Science in Business (3. year)

Responsible for the course

Erling Steigum

Department

Department of Economics

Term

According to study plan

ECTS Credits

7,5

Language of instruction

Norwegian

Introduction

The main theme of this intermediate course is monetary and fiscal policy in a small open economy like the Norwegian. Participants will also learn about the macroeconomic development of the Norwegian economy after 1980, economic effects of spending government petroleum revenues, the flexible inflation targeting framework of monetary policy, as well as long-term fiscal policy issues related to population ageing, pension reforms and the fiscal sustainability of welfare states.

Other related themes which are important in this course are financial instability and government debt crises.

Learning outcome

Acquired knowledge

After completed course students shall know:

- How foreign exchange rates are formed under full international capital mobility and how monetary policy affects exchange rates.
- How monetary policy affects the demand for private consumption, gross fixed investment and net exports in the short run.
- Short and long-run Phillips curves and the effects of demand and supply shocks on the rate of inflation.
- Nominal anchors, monetary unions such as EMU, as well as advantages and disadvantages of joining EMU compared to retaining a national currency.
- Monetary policy trade-offs when inflation-targeting Central Banks set policy interest rates, based on theories of optimal monetary policy rules derived from minimization of loss functions.
- Fiscal policy goals and instruments. Effects of spending of government petroleum revenues on the real exchange rate and industrial structure, and the economic effects of tax wedges in labor and capital markets.
- Long run effects of public debt and pension reforms.

Acquired Skills

After completing the course, students will:

- Understand macroeconomic contexts in mathematical form and to analyze policy effects in mathematical models in addition to the graphical shape considerations.
- Be able to analyze how exchange rates are determined under uncovered interest parity. They will master the so-called IS-MP model for a small open economy with a flexible exchange rate. Be able to analyze how different factors affect inflation by means of short-term and long-term macro offers functions and logic of so-called inflationary and deflationary spirals.
- Understand the difference between inflation and price level for monetary policy.
- Have an insight to the logic behind the optimal monetary policy based on the minimization of a loss function.
- Be able to see the link between objectives and instruments of fiscal policy and conflict of goals between wealth creation and income distribution. It is also required that the students put into the model-based analysis of how the state's use of petroleum revenue will impact on the real exchange rate and industry structure.
- Be able to analyze how the tax wedge in the labor and capital markets will affect the incentives to offer work and save.

- Be able to explain the macroeconomic effects of the government builds public debt or capital. Such issues are also related to the expected effects of population aging in the long term, as well as challenges related to pension reforms, the Government Pension Fund - Global and the financing of the welfare state in the long term. It is required that students master the intertemporal budget counter to the general government sector and can use it to calculate the requirements that must be set to a sustainable fiscal policy in the long term.
- Have an overview of the historical macroeconomic developments in the Norwegian economy since 1980, and can explain what caused the large cyclical movements before and after the banking crisis in the early 1990s, as well as the challenges of the financial crisis and debt crisis in Europe in the period 2007-2011.

Reflection

After taking this course the students should be ethically conscious about the conflicts of interest and inherent goal conflicts and trade-offs in macroeconomic policy. They should be able to look at a macroeconomic policy issue from different perspectives in regard to the interests of different groups in society. They should also have developed a critical attitude making them conscious of the difference between political ambitions behind announcements of goals and the real effects of macroeconomic policies in practice.

Prerequisites

This course builds on 1201 Macroeconomics I, and therefore the prior knowledge of mathematics, statistics, microeconomics and business as Macroeconomics I requires.

Compulsory reading

Books:

Steigum, Erling. 2004. *Moderne makroøkonomi*. Gyldendal akademisk. kapittel 10-14 (190 sider)

Articles:

Røisland, Ø. og T. Sveen. 2005. Pengepolitikk under et inflasjonsmål. *Norsk økonomisk tidsskrift*. 16-38

Steigum, Erling. 2006. Aktivabobler - kan og bør myndighetene gjøre noe?. *Magma*. Nr. 1. 57-67

Steigum, Erling. 2006. Den keynesianske revolusjonen 70 år etter : et tilbakeblikk. *Økonomisk forum*. Nr. 6. 18-26

Steigum, Erling. 2008. Befolkningsaldring, pensjonsreformer og realøkonomi. *Samfunnsøkonomen*. Nr. 6 og 7

Steigum, Erling. 2009. The boom and bust cycle in Norway. I: Jonung, L., J. Kiander og P. Vartia, red.: *The Great financial crisis in Finland and Sweden*. Edward Elgar. kapittel 7 (pp. 202-244)

Steigum, Erling. 2010. Norsk økonomi etter 1980 : fra krise til suksess. *Praktisk økonomi og finans*. Nr. 3. 9-15

Other:

OECD. 2010. *OECD Economic Surveys: Norway 2010*. 145 sider

Recommended reading

Books:

Ferguson, Niall. 2008. *The ascent of money : a financial history of the world*. The Penguin Press. 404 sider

Course outline

1. Model based analysis of short-term effects of monetary and fiscal policy on aggregate employment and output.
2. Monetary and fiscal policy under fixed and flexible exchange rates.
3. Short and long run macro supply functions and Phillips curves.
4. Nominal anchoring of an economy.
5. The European Monetary Union.
6. Monetary policy under flexible inflation targeting.
7. Fiscal policy: Goals and policy instruments.
8. Spending of petroleum revenues and the real exchange rate.
9. Macroeconomic effects of tax wedges.
10. Government debt.
11. Population ageing, pension systems and fiscal policy
12. Macroeconomic development of the Norwegian economy after 1980. Asset bubbles, financial and government debt crises

Computer-based tools

Itslearning

Learning process and workload

The course consists of 36 hours of lectures and 6 hours of plenary exercises.

Work Requirements

Seven sets of coursework requirements will be posted on It'learning. Five of these have to be approved in order for the student to be allowed to take the final exam. Feedback will be given both electronically and in class. Information about dead lines will be given at the start of the term.

Recommended workload in hours

Activity	Use of hours
Lectures	36
Feedback on required coursework in class	6
Reading of literature and preparation for lectures	131
Coursework requirements	24
Final examination	3
Total recommended use of hours	200

Use of hours**Coursework requirements**

The students must get five out of the seven assignments approved in order to take the written exam.

Examination

The course is concluded by a five-hour individual written exam.

Examination code(s)

SØK 13661 - Written exam accounts for 100% of the final grade in SØK 1366 - Macroeconomics - 7.5 credits.

Examination support materials

BI-defined exam calculator. TEXAS INSTRUMENTS BA II Plus™

Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary.
https://at.bi.no/EN/Pages/Exa_Hjelpemidler-til-eksamen

Re-sit examination

A re-sit examination is offered every term.

Students that have not got approved five out of seven assignments are not allowed to take the exam. This means that they have to re-take the entire course later. Students that have not passed the written examination or who wish to improve their grade can take the re-sit examination when the next scheduled examination is offered.

Additional information