APPLIES TO ACADEMIC YEAR 2014/2015

DRE 7011 Lecture series on Oil Markets and the Macro Economy

Programme
Elective course

Responsible for the course
Hilde C Bjørnland

Department
Department of Economics

Term
According to study plan

ECTS Credits
3

Language of instruction
English

Introduction

Learning outcome

After taking this course the students should have a solid knowledge of advanced research in oil market models and the link between oil prices, the macroeconomy and monetary policy, addressing both oil importers and resource rich economies.

To model the oil market, the students should master and be able to produce sophisticated research using theory and a variety of linear and non-linear time series methods.

To analyse the link between the oil market, the macroeconomy and monetary policy, the students will be familiar with, among others, structural vector autoregression (VAR) models and Dynamic stochastic general equilibrium (DSGE) models

Prerequisites
Admission to a PhD program is a general requirement for participation in PhD courses at BI Norwegian Business School.

External candidates are kindly asked to attach confirmation of admission to a PhD programme when signing up for a course with the doctoral administration if they want to take exams. However, candidates can be allowed to sit in on courses by approval of the course leader. Sitting in on courses does not permit registration for courses, handing in exams or gaining credits for the course. Course certificates or conformation letters will not be issued for sitting in on courses

Compulsory reading
Books:
Alquist, R., L. Kilian, and T.J. Vigfusson. 2012. “Forecasting the Price of Oil.”. Prepared for: G. Elliott and A. Timmermann, eds., Handbook of Economic Forecasting 2. Amsterdam: North Holland.

Articles:
Barsky, R.B., and L. Kilian. “Do We Really Know that Oil Caused the Great Stagflation?. A Monetary Alternative,” in: NBER Macroeconomics Annual 2001, B.S. Bernanke and K. Rogoff (eds.), MIT Press: Cambridge, MA, 137-183.. 2002
Bodenstein, M., L. Guerrieri, and L. Kilian. 2012. “Monetary Policy Responses to Oil Price Fluctuations,” mimeo, University of Michigan.
Hamilton, J.D. 1983. “Oil and the Macroeconomy Since World War II”. Journal of Political Economy. 91, 228-248.
Hamilton, J.D. 2009. “Causes and Consequences of the Oil Shock of 2007-08”. Brookings Papers on Economic Activity, 1, Spring. 215-261
Hamilton, J.D. 2011. “Nonlinearities and the Macroeconomic Effects of Oil Prices”. Macroeconomic Dynamics, 15. 364-378

Hamilton, J.D., and A.M. Herrera. 2004. “Oil Shocks and Aggregate Economic Behavior: The Role of Monetary Policy”. Journal of Money, Credit and Banking, 36. 265-286
Kilian, L. 2008b. “A Comparison of the Effects of Exogenous Oil Supply Shocks on Output and Inflation in the G7 Countries”. Journal of the European Economic Association, 6. 78-121.
Kilian, L. 2009. “Not all Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market”. American Economic Review, 99. 1053-1069
Kilian, L. (2008a), “Exogenous Oil Supply Shocks: How Big Are They and How Much Do They Matter for the U.S. Economy?”. 2008a. “Exogenous Oil Supply Shocks: How Big Are They and How Much Do They Matter for the U.S. Economy?”. Review of Economics and Statistics, 90. 216-240
Torvik R.. 2001. Learning by doing and the Dutch disease. European Economic Review. 45. 285-306

Other:

Bjørnland, H.A. , Aastveit, K.A. and L.A. Thorsrud. 2015. What drives oil prices? Emerging versus Developed Economies. Journal of Applied Econometrics. (forthcoming)
Bjørnland, H.C. and Torsrud, L.A.. 2014. Boom or gloom? Examining the Dutch disease in two-speed economies. CAMP Working paper 6/2014
During the course there will be hand-outs and additional articles relevant for the course and the examination

Recommended reading

Course outline

The course consists of three parts:

Part 1: We cover theories and empirical evidence of linkages between oil prices, the macroeconomy and monetary policy, including

- A Structural Model of the Global Market for Crude Oil
- What drives oil prices, demand or supply?
- Are Macroeconomic Responses Asymmetric in Oil Price Increases and Decreases?
- Monetary Policy Responses to Oil Price Fluctuations

Part 2: The resource curse literature claims that resource abundance may reduce economic growth, and also make the economy «oil dependent». Several theoretical foundations have been developed to explain why this may (or may not) be the case. The main focus in the lectures is put on the Dutch Disease part of the literature, although we will also discuss theories of rent-seeking and theories of how resource abundance shapes political incentives. Towards the end of the lectures we will discuss remaining research challenges in these fields.

Part 3: In the final part we analyse if resource rich countries enjoy positive spillovers from the petroleum sector, or, if there is evidence of oil dependence and eventually Dutch disease. Topics to be covered:

- Empirical evidence (or lack of evidence) of Dutch disease
- Spillovers of oil and gas in resource rich economies
- Policy in resource rich economies

Computer-based tools

It's learning/homepage

Learning process and workload

A course of 3 ECTS credits corresponds to a workload of 80-90 hours.

Lectures: 15 h.

Please note that while attendance is not compulsory in all courses, it is the student’s own responsibility to obtain any information provided in class that is not included on the course homepage/It's learning or text book.

Examination
Course paper.
Graded pass/fail

Examination code(s)
DRE 70111 course paper counts for 100% of the final grade in the course. The gradescale is pass/fail

Examination support materials
Exam aids at written examinations are explained under exam information in our web-based Student handbook. Please note use of calculator and dictionary. http://www.bi.edu/studenthandbook/examaids

Re-sit examination
It is only possible to retake an examination when the course is next taught.
The assessment in some courses is based on more than one exam code.
Where this is the case, you may retake only the assessed components of one of these exam codes.
Where this is not the case, all of the assessed components of the course must be retaken.

Additional information

Honor Code
Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honor code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honor code system, to which the faculty are also deeply committed.

Any violation of the honor code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academic integrity. If you have any questions about your responsibilities under the honor code, please ask.