



APPLIES TO ACADEMIC YEAR 2016/2017

SØK 1366 Macroeconomics II

Programme

Bachelor of Science in Business and Economics (3. year)

Responsible for the course

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Department

Department of Economics

Term

According to study plan

ECTS Credits

7,5

Language of instruction

Norwegian

Introduction

The main focus of the course is short term macro economics and understanding the business cycle. The main aim of the course is to provide a deeper understanding of monetary and fiscal policy in a small open economy like the Norwegian. Participants will also learn about the macroeconomic development of the Norwegian economy, economic effects of spending government petroleum revenues, and the flexible inflation targeting framework of monetary policy.

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.

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 into 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 to some extent on the industry structure.
- Have an overview of the historical macroeconomic developments in the Norwegian economy, and be able to explain the challenges of and the some of the main mechanisms behind 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

Requirement: SØK 1201 Macroeconomics I.

Compulsory reading

Books:

Steigum, Erling. 2004. Moderne makroøkonomi. Gyldendal akademisk. Kapittel 7-13, til og med avsnitt 13.3, unntatt avsnitt 9.3 (294 sider). Kapittel 7 er overført fra Makroøkonomi I til Makroøkonomi II; Kapittel 14 er overført fra Makroøkonomi II til Makroøkonomi I

Book extract:

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)

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

Recommended reading

Books:

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

Krugman, Paul. 2012. End this depression now!. W. W. Norton & Company

Articles:

En til to relevante og aktuelle artikler; nærmere informasjon på forelesning og på fagets side på It's learning

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 development of the Norwegian economy. 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.

Seven sets of coursework requirements will be posted on It's learning. Feedback will be given both electronically and in class.

Recommended workload in hours

Activity	Use of hours
Lectures	36
Feedback on required coursework in class	6
Reading of literature and preparation for lectures	130
Coursework requirements	23
Final examination	5
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 approved exam calculator. Examination support materials at written examinations are explained under examination information in the student portal @bi. Please note use of calculator and dictionary in the section on support materials (https://at.bi.no/EN/Pages/Exa_Hjelpemidler-til-eksamen.aspx).

Re-sit examination

A re-sit examination is offered every term.

Additional information

The course has previously had work requirements, where the students had to have approved five of the seven tests in order to sit for final examination in the course. However, the work requirement was removed as from the spring semester of 2017.