

New Economic School
Module 6, September-October 2018

Macroeconomics-II

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Description of the course.

This course follows Macro-I course you have already taken in the first year. In general, macrofinance becomes more and more empirical science, and it spends a lot of time on data collection, analysis of theories and discovering anomalies in the markets. The course is thus based mostly on recent research which we will sometimes replicate.

We will spend our time on two large blocks of topics. First, we will talk about inflation expectations, potential output and NAIRU, recovering market expectations from a number of financial instruments, and Central Bank impact on financial markets. We will be looking at well-known macrofinancial problems such as uncovered interest parity (UIP), carry trade, exchange rate predictions, and relation between commodity prices and currencies.

Second, we will expand our knowledge regarding interconnected international economies. As global trade becomes more and more complex, normal export channels (currency depreciation) is no longer an easy way to fight a recession. We will discuss several ideas on this topic, and make sense of recent slowdown of international economy, lower productivity growth and effective reduction in real wages of workers. Finally, the idea of uncertainty as the reason for slow growth will be reviewed.

There will be two case studies in the course. One is devoted to the study of US current account deficit. The case is especially valuable as it provides Excel-based simulation of

future changes in the current account we can reconsider as of today. Second case is on China's approach to renminbi internationalization and attempts to introduce more widespread usage of its currency. Both cases might be considered as lessons for Russia: while Russia is on the other side of the trade imbalance (high positive), Ruble might become regional currency if Russia applies more effort on that. So both questions are relevant to the current agenda.

Literature.

The primary textbook is (IFTP)

<https://www.saylor.org/site/textbooks/International%20Finance%20-%20Theory%20and%20Policy.pdf>

Additional reading, mostly papers and from the press, will be made available by the instructor during the course.

Grading system.

There will be three group home assignments due around the lectures. They are planned before the third, fifth, and sixth weeks. Total weight of the assignments is 39% (13% each).

We will discuss two cases about macropolicy questions. They will help you to go through the ideas of macro policy and could provide you up to 20% of the course grade (10% each).

41% of the grade will be determined at the final exam.

Tentative schedule.

Lecture 1: Foreign exchange markets and the rate of return. PPP and interest rate parity. CIP. Fama regressions.

IFTP, Ch. 4-6.

Lecture 2: Carry trade. UIP and other puzzles.

IFTP, Ch. 4-6.

Lecture 3: (Home assignment 1 is due). Nominal exchange rate predictions. Predicting commodity currencies.

No textbook reading.

Lecture 4: Trade imbalances. Eurozone, China and the US. Capital inflows, exchange rate and macroeconomics

Prepare case for this lecture 4: "US current account deficit" (remember to fill the template before the lecture).

IFTP, Ch. 3.

Lecture 5: (Home assignment 2 is due). Financial crises and banking system. Lehman Brothers story. Central Bank impact on the economy and financial markets.

No textbook reading.

Lecture 6: (Home assignment 3 is due). Export channel of international economics. Taylor rules. Potential output and its predictions. Predicting recessions.

No textbook reading.

Lecture 7: Inflation targeting and macroeconomic variables. Future growth forecasting. Uncertainty and growth

Prepare case for this lecture 7: "The globalization of the renminbi" (remember to fill the template before the lecture).

No textbook reading.