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Línea Curricular:
Cuatrimestre: 1º
Créditos:



Facultad de Ciencias Económicas y Empresariales
Ekonomi Eta Enpresa Zientzien Fakultatea

Programme of Macroeconomic Theory III

Year:
2009/2010

Course
4º

Bachelor degree in Economics

Department
Fundamentos del Análisis Económico II

Lecturers for 2009/2010:

1. Miguel Manuel Artiach (Spanish)
2. María Victoria Ateca (English)
3. Cruz Ángel Echevarría (coordinator; Spanish)
4. Allessandro Maravalle (Spanish)
5. Luis Rey (Spanish)
6. Amagoia Sagasta (Euskara)

Aims of the subject:

The contents of Macroeconomics III are distributed in three topics. Topic 1 analyzes households' decisions on savings, consumption and supply of labour. Firms' decisions on factors demand, optimal stock of capital and investment are the main issues of Topic 2. Finally, Topic 3 analyzes the competitive equilibrium and Pareto Optimum of a whole economy in the context of a neoclassic growth model. Government's actions are not considered in this course.

Topic 1: Consumer's Decisions

- 1.1. Introduction.
- 1.2. Decisions on consumption-saving.
 - 1.2.1. General Model.
 - 1.2.2. Model with financial constraints.
- 1.3. Decisions on consumption-leisure in an intertemporal context.
- 1.4. Effects of different tax policies.
- 1.5. The Aggregate Consumption Function: Life Cycle and Permanent Income Theories.
- 1.6. ASSIGNMENT: Estimation of a Consumption Function.

Basic references:

de la Rica, Echevarría, Iza and Sagasta (2007), Ch. 1.
Gutiérrez (2000), Ch. 1.
Lecturer's notes.

Complementary readings:

Novalés and Sebastián (2001), Vol. I, Ch. 4.
Dornbusch and Fischer (2000)
Mankiw (2007)

Topic 2: Firms' demand for capital and labour

- 2.1. Introduction.
- 2.2. Labour demand with different assumptions on the product market structure.
- 2.3. Labour demand when the firm cannot self-finance.
- 2.4. Uncertainty and asymmetric information in the capital market.
- 2.5. Uncertainty and labour costs of adjustment.
- 2.6. Demand for capital and demand for investment.
- 2.7. Demand for investment and Tobin's q .
- 2.8. ASSIGNMENT: Demand for factors.

Basic references:

de la Rica, Echevarría, Iza and Sagasta (2007), Ch. 2.
Gutiérrez (2000), Ch. 2.
Lecturer's notes.

Complementary readings:

Novalés and Sebastián (2001), Vol. I, Ch. 5.

Topic 3: The Neoclassical growth model of Ramsey-Cass-Koopmans

- 3.1. Introduction.
- 3.2. The competitive equilibrium: households, firms and equilibrium.
- 3.3. Social Planner's problem.
- 3.4. Equilibrium and social optimum.
- 3.5. Steady State.
 - 3.5.1. Concept and process to obtain it.
 - 3.5.2. Analysis of the steady state.
- 3.6. Dynamics to the steady state.
 - 3.6.1. Linear approximation.
 - 3.6.2. Simulation of the series of k_t , c_t , y_t and w_t .
- 3.7. ASSIGNMENT: Simulation of the Ramsey-Cass Koopmans model.

Basic references:

de la Rica, Echevarría, Iza and Sagasta (2007), Ch. 3.
Gutiérrez (2000), Ch. 2.
Lecturer's notes.

Complementary readings:

Novalés and Sebastián (2001), Chapter 8.
Sala-i-Martin, X. (2000), *Apuntes de Crecimiento Económico*, 2^a Ed. Antoni Bosch, Chapter 3.
Notas sobre crecimiento y ciclos económicos, de Carlos Urrutia, Ilades-Georgetown University.

Specific competences to be acquired:

1. Model consumer's intertemporal decisions to understand the demand for goods, savings and labor supply.
2. Determine the optimal decisions of the firm to explain the demand for inputs under different assumptions.
3. Solve and analyze simple economic growth models with optimizing agents in order to compare the results of the competitive equilibrium with the social optimum outcome.
4. Interpret the analytical results to understand the underlying decisions of the economic agents and to understand reality.
5. Use new information technologies to obtain better results, acquire and master written and oral skills, get ready to a more efficient professional performance.

Teaching methodology:

Teaching methodology makes use of different approaches: *i)* master classes, *ii)* classroom exercises, *iii)* computer exercises, and *iv)* seminars.

During the master classes (also known as *clases magistrales*) the teacher will present the topics of the syllabus, highlighting the important concepts and analytical methods. In order to follow these topics easily, the student will be provided with the class notes that the teacher will present in each theoretical session. In this way, the student can focus on the reasoning with no need to transcribe the lessons that make use of exhaustive formal and mathematical notation.

The teacher solves problems during the classroom exercises sessions in order to illustrate how to use the analytical tools presented in master classes, though the interaction of students is needed. The purpose is to complement with practical issues the theoretical approach and to present the way to solve for the type of problems that the student must solve in the exam.

The computer exercises, to be done in the computer rooms, the teacher will illustrate how to solve the practical assignments. The students are required to use statistical packages, spreadsheets, text processors and programs for presentations. The teacher will provide guidance to solve for these assignments.

During the seminars, it is the student who has to solve and present to the other students the solution to previously assigned problems and who present the results of the practical assignments. There will be fluent communication between the teacher and the students in this type of sessions.

Evaluation:

The ordinary evaluation system will be a continuous grading one, according to the criteria set by the EEES education approach. However, exceptionally, the students that cannot participate in the continuous grading system can take a final exam that will evaluate the same set of specific competences for this subject.

Continuous grading: The teacher will evaluate to what degree the student has acquired the competences during the course. The final grading will be obtained by adding up:

- a) GRADING FROM THE SEMINARS: The students have to do two types of activities (35% of the final grade)

- i. Solve in the blackboard the problems that have been proposed by the teacher. During the course, each student will present at least a previously assigned problem. The grading for this will be 5% of the final mark. This activity will also allow getting extra points (up to 1) if the student volunteers to solve for more exercises.
 - ii. Solve and present 1 of the 3 practical assignments of the program. The students will solve them in groups of 3, and the results will be presented in the seminars under the guidance of the teacher. Recall that every two equal works, or suspected to be irregularly done, would be taken as plagiarism, thus would both obtain 0 points getting a “suspenso” mark in the February final grading. The mark for this assignment will worth 30% of the final grade.
 - iii. The minimum mark required for this part is 2/10. If this threshold is not reached, the student will get a “suspenso” mark in the February final grading.
- b) **WRITTEN EXAM.** (65% of the final grade) The final exam will consist on a set of theoretical questions (basically conceptual ones) and a set of problems. The minimum mark required for this part is 3.5/10. If this threshold is not reached, the student will get a “suspenso” mark in the February final grading. Please note that this exam can be different to the final exam for the students that are not following the continuous grading system.

Apart from this grading, the teacher will evaluate the active and positive participation during all type of sessions. If the student answers to the questions arisen during the master classes and the problem classes, he/she will get up to 1 extra point.

REMARK: The grading for seminars and classes will be taken into account in both calls of the academic year 2009/2010 (February and June).

Final exam: The final grade will be obtained by grading two different parts:

- c) **FIRST:** (65%) The final exam will consist on a set of theoretical questions (basically conceptual ones) and a set of problems. The minimum mark required for this part is 3.5/10. If this threshold is not reached, the student will get a “suspenso” mark in the February final grading. Please note that this exam can be different to the final exam for the students that are following the continuous grading system.

SECOND: (35%) Solve an exercise related to one of the practical assignments proposed in the program. This part will be done either in one of the computer rooms in the School or in a classroom. The minimum mark required for this part is 2/10.

Remark:

Previous experience shows that active and positive class attendance and participation is extremely convenient: achieved results are highly determined by this fact. Class notes are made available at the beginning of the course. However, these notes are a complement to follow the classes and they can never be a substitute to class attendance. The purpose of the class notes is never to encourage absenteeism, but to help students so they do not have to spend energy in transcribing their own class notes based on mathematical notation.

Even if this advice (always highlighted by the teachers of this subject) is ignored by the student, he/she would have to take into account that it can never be an excuse that he/she could not follow the classes due to attendance to other subjects, nor that he/she is doing any trainee in a firm, nor holding a job, nor living out of Bilbao, for instance.

Basic References:

1. *Análisis Macroeconómico*, Volumen I, 2ª Edición (2001) (Chap. 1, 4, 5 and 8) by Alfonso Novales y Carlos Sebastián, 2001, edited by Marcial Pons.
2. *Microfundamentación macroeconómica: ejercicios resueltos*, by María-José Gutiérrez, Universidad del País Vasco, 2000.
3. *Macroeconomía* 6ª Edición, Rudiger Dornbusch y Stanley Fischer, Ed. McGraw-Hill, pp. 333-351
4. Lecturer Notes.
5. Collection of problems.
6. Collection of exams from other years (solved)
7. *Exercises in Macroeconomic Theory III with Solutions* (2007), Sara de la Rica, Cruz A. Echevarría, Amaia Iza and Amagoia Sagasta. Servicio Editorial de la UPV/EHU.
8. *Ejercicios Resueltos de Teoría Macroeconómica III* (2007), Sara de la Rica, Cruz A. Echevarría, Amaia Iza and Amagoia Sagasta. Servicio Editorial de la UPV/EHU.
9. *Teoria Makroekonomikoa III-ko Ebatzizako Ariketak* (2007), Sara de la Rica, Cruz A. Echevarría, Amaia Iza and Amagoia Sagasta. Servicio Editorial de la UPV/EHU.

Complementary Readings:

1. Dornbusch, R and S. Fischer (2000), *Macroeconomía* 6ª Edición, Ed. McGraw-Hill, pp. 333-351.
2. Sala-i-Martin, X. (2000), *Apuntes de Crecimiento Económico*, 2ª Edición, Ed. Antoni Bosch.
3. Romer, D. (2002), *Macroeconomía Avanzada* 2ª Edición, Madrid: McGraw-Hill, Chap. 2.