

**Masters Program
«Economic and Business Strategy»
Department of Economics
University of Piraeus**



Module Guide

Macroeconomic Environment and the Firm

Instructor

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Macroeconomic Environment and the Firm

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1. Course Description

Macroeconomics is the study of the economy as a whole. It examines how basic aggregate magnitudes, such as total production, employment, consumption and investment are determined in an economy, which is affected by economic and political decisions in the rest of the world. It examines the problems of inflation and unemployment trying to provide answers. Furthermore, it studies the factors and the paths that lead to economic growth and prosperity. The course will be separated in three parts. The first will deal with the short and medium run where the role of monetary and fiscal policy will be developed. Unemployment and inflation are the main issues that will be examined and analyzed as well as the role of fiscal and monetary policy. The second part deals with the economy in the long run where the main focus will be on the factors that influence the growth of the economy and the role of the technological progress in the growth process. The third part deals with an open economy in which goods and financial assets are traded internationally and labor and capital are free to move. An integral part of the course is the case studies that will be handed out. These studies deal with policy issues and empirical facts that link macroeconomic theory with real life that will help students to understand theory better and also explain some of the real phenomena.

2. Course Objectives

The learning objectives of the course:

To help students understand the problems of inflation and unemployment, apprehend the role of expectations and be able to comprehend and criticize policy issues designed to correct these problems.

To formally analyze a long run growth model that will explain to a large extent why some countries grow faster than others and also specify the factors that are responsible for high and sustainable growth.

To examine and analyze the episodes of recessions and depressions in an economy as well as the policy measures taken to mitigate their effects on output and employment.

To analyze the impact of the real world upon output and employment of a country which is small enough to affect the economic conditions in the rest of the world.

At the end of the course students will be able to answer questions such as:

What determines inflation and unemployment?
 Why nominal interest rates rise with inflation?
 How important are expectations in an economy?
 Can the policy makers affect expectations?
 What the government can do to reduce inflation and unemployment?
 Why countries form unions and adopt common currencies? How fast and for how long
 can a country grow?

3. Textbooks and Reading

The main textbook of the course is:

1. O. Blanchard, “Macroeconomics”, 8th ed., Pearson, 2021.

Students may wish to consult the following textbooks that cover the same material with the main textbook.

2. R. Dornbusch, S. Fischer and Startz, “Macroeconomics”,. McGraw-Hill, 10th ed. 2007. N. G. Mankiw, “Macroeconomics” Worth Publishers, 7th ed. 2010.
3. At a more advanced level with extensive use of mathematics is: D. Romer, “Advanced Macroeconomics”, McGraw-Hill, 4th ed. 2011.

4. Grading

The final course mark will comprise three elements, weighted as follows:

Midterm exam: 40%

Final exam: 60%

5. Detailed Schedule

The course will be covered in thirteen 3-hour sessions. Each session will be consisted by the theory part and a problems-case studies part. Each session will cover the topics listed below and will be supported by the corresponding readings.

The following is a list of session titles and respective readings.

Session 1. Introduction

Concepts: Introduction to Macroeconomics, National Accounts, Real and Nominal GNP, GNP as a Measure of National Welfare.

Textbook: Chapters 1 and 2.

Session 2. Consumption - Investment

Concepts: Consumption, MPC, Factors Affecting Consumption, Taxes and Consumption, Investment, Investment Evaluation, Factors Affecting Investment, Acceleration Theory.

Textbook: Chapter 3.

Session 3 Income equilibrium -Multipliers - Fiscal policy

Concepts: Income equilibrium in a private and mixed economy, multipliers, inflationary and deflationary gap, fiscal policy.

Textbook: Chapter 3.

Session 4. Money market – Monetary policy

Concepts: Money Supply, Banking System, Money Creation, Monetary Policy, Demand for Money, Money Market, Liquidity Trap.

Textbook: Chapter 4.

Session 5. General macroeconomic equilibrium- IS-LM model

Concepts: General Macroeconomic Equilibrium, Fiscal Policy, Monetary Policy, IS-LM model, Effectiveness of Fiscal and Monetary Policy

Textbook: Chapter 5.

Session 6. Inflation and Unemployment – A first approach

Concepts: Inflation Types, Inflation Effects, Inflation Theories, Anti-inflation Policies, Unemployment, Unemployment Types, Phillips Curve.

Textbook: Chapter 8

Session 7. Midterm exam – AD-AS model: a first approach

Concepts: AD-AS Model: a First Approach.

Textbook: Chapter 8.

Session 8. The Labor Market, AD-AS model again

Concepts: The Labor Market: Wage Setting Process and Labor Market Equilibrium
Putting all Markets together (AS-AD model): Equilibrium with Flexible Prices.

Textbook: Chapters 6, 7.

Session 9. Natural Rate of Unemployment and the Phillips curve

Concepts: The Natural Rate of Unemployment and the Phillips curve: The trade off
Inflation, Activity and Nominal Money Growth: Okun's law and Disinflation. Policy,
Expectations and Credibility.

Textbook: Chapters 8, 9 and 24.

Session 10. Growth, The Production Function, Technological Progress

Concepts: The Facts of Growth: The Production Function and the Sources of Growth
Capital Accumulation and Growth: Steady State Output and the Golden Rule
Technological Progress and Growth: Convergence between Nations, Research and
Development.

Textbook: Chapters 10, 11, 12.

Session 11. Open Economy I

Concepts: Openness in Goods & Financial Markets: Nominal and Real Exchange Rates,
The balance of Payment, The Goods Market in an Open Economy: Internal and External
Balance.

Textbook: Chapters 18 and 19.

Session 12. Open economy II

Concepts: Output, the Interest Rate, & the Exchange Rate: Goods and Financial Markets Equilibrium, Fiscal and Monetary Policy Exchange Rate Regimes: Fixed versus Flexible Exchange Rates, Optimal Currency Area.

Textbook: Chapters 20 and 21.

Session 13. Review for final