

Tadeusz Kosciuszko Cracow University of Technology

Course Card

Faculty of Civil Engineering

Field of study: Civil Engineering

Study profile: general academic

Study form: full-time

Field of study code: BUD

Study cycle: 1st

Specialty: no specialty

1 COURSE INFORMATION

| | |
|------------------------|--|
| Course name | Makroekonomiczne podstawy polityki gospodarczej (współczesne wyzwania) |
| Course name in English | Macroeconomics Foundations of Economic Policy (Modern Challenges) |
| Course code | WIL BUD oIS A6 24/25 |
| Course category | Przedmioty ogólne |
| No. of ECTS points | 3.00 |
| Semester | 1 |

2 CLASS TYPE, NUMBER OF HOURS ACCORDING TO THE STUDY PLAN

| Semester | Lecture | Class exercise | Laboratory | Computer lab | Design exercise | Seminar |
|----------|---------|----------------|------------|--------------|-----------------|---------|
| 1 | 30 | 0 | 0 | 0 | 0 | 0 |

3 COURSE OBJECTIVES

Objective 1 Provide students with ability to analyze statistical data on gross domestic product (GDP), balance-of-payments (BOP), unemployment and inflation as a prerequisite for understanding and theoretically-consistent interpretation of the most important developments on the national and international scale.

Objective 2 Provide sufficient coverage of the most popular macroeconomic models and theoretical concepts, as the

saving-investment balance, the IS-LM-BP, AD-AS, the Phillips curve, which is necessary for independent analysis of present economic policy issues and future challenges.

Objective 3 Provide with a student-friendly way of acquiring analytical skills on the basis of formal macroeconomic models in respect to fiscal and monetary policies, determinants of inflation, unemployment and migration, as well as BOP adjustment.

Objective 4 Explain underlying differences between major schools of economic thought, with a focus on their policy implications for major economic policy debates of the modern world, as the viability of global imbalances, approaches for an increase in the saving rate in industrial countries, recipes for the balanced growth path, tackling with the high unemployment problems, feasibility of the fiscal and monetary stimuli during a recession, the pattern of anti-deflationary and anti-inflationary policies

4 PREREQUISITES IN TERMS OF KNOWLEDGE, SKILLS AND OTHER COMPETENCES

1 Minimal mathematical skills

5 LEARNING OUTCOMES

LO1 Knowledge Student demonstrates general knowledge of the income accounting, with a detailed analysis of the GDP components, as consumption, investment, government expenditure, exports and imports, as well as the BOP relationships. Student is able to interpret the law of one price and provide assessment of the national models of economic growth, with a focus on important differences between consumption-led and export-led growth

LO2 Skills Student possesses applied skills in the interpretation of the saving-investment balance relationships, including current policy debate on the merits of fiscal austerity measures at the national and international levels, international spillovers within the framework of global imbalances, explanation of the underlying mechanisms of the twin deficit and the Ricardo Equivalence.

LO3 Knowledge Student is able to explain basic policy implications of the Solow growth model, such as changes in the saving rate, population growth and amortization rates, the golden rule of capital accumulation. It is necessary to distinguish between the determinants of growth in traditional and endogenous growth models, in relation to present discussion of the Poland's convergence to the average productivity level of the EU countries

LO4 Skills Student has analytical skills to analyze fiscal and monetary policy effects within the theoretical framework of the AD-AS model, with an ability to explain the effects of demand and supply shocks. Student understands important differences between New Classical Macro and New Keynesian explanations of the business cycle and relevant stabilization policy proposals, with a focus on macroeconomic developments and stabilization policies in the wake of the 2008-2009 financial crisis regarding major industrial countries and Poland

LO5 Skills Student analyzes the interplay between demand and supply factors on the labor market, being able to explain the phenomena of jobless growth and the concept of natural rate of unemployment. Based on the Okuns law, student calculates the natural GDP growth rate. Student explains selection problems in international migration and potential benefits and costs of labor migration for donor and acceptor countries

LO6 Knowledge Student understands inflationary developments in general and the Phillips curve relationships in particular, being able to explain determinants of inflationary pressure and the course of anti-inflationary policies.

LO7 Skills Student is able to expound on multiple facets of the current discussion on the euro adoption in Poland and important static and dynamic features of the public debt, with a focus on policy challenges for highly-indebted eurozone countries as Greece, Italy, Ireland, Portugal and Spain.

LO8 Knowledge Student compares different explanatory hypothesis behind the 2008 world financial crisis and competing views on the role of government in a modern economy within the framework of conventional economic concepts.

6 COURSE CONTENT

| Lecture | | |
|-----------|---|--------------------|
| No. | Subject matter of the course Detailed description of thematic blocks | No. of class hours |
| L1 | Income Accounting. Concepts of aggregate supply and aggregate demand. Instruments of economic policy. Stabilization policy. Schools of Thought. Classical versus Keynesian assumptions. Neoclassical synthesis. Nominal versus real GDP. Price indexes. Quality of economic growth. Purchasing Power Parity. The Law of One Price. Big Mac Index. Components of GDP: consumption, investment, government expenditure, exports, imports. The Balance-of-Payments. Open and closed economies. Consumption-led and export-led growth. Import substitution. National models of economic growth. | 2 |
| L2 | Consumption, Saving Behavior and Credit Markets. Theories of consumption. The saving-investment balance. The wealth effect. The real exchange rate. The Feldstein-Horioka puzzle. The permanent income hypothesis. Incentives for savings. The twin deficit. The Ricardo Equivalence. Global imbalances. External debt | 4 |
| L3 | Growth Models. Determinants of growth in the short- and long-run. Economic growth and economic development. The Harrod-Domar model. Neoclassical model. The Solow model. Convergence. Endogenous growth models. | 2 |
| L4 | IS-LM-BP Model. The Mundell-Fleming model as an open economy extension of the IS-LM model. Capital mobility. Fiscal-monetary policy mix. Crowding out. Domestic and external equilibrium. Policy assignments. The Samuelson-Tobin synthesis. | 2 |
| L5 | AD-AS Model and Potential Output. Structure of the AD-AS model. Price flexibility. Devaluation effects. Supply-side economics. Keynesian demand policies. Natural level of income. Potential output. Overheating. | 2 |
| L6 | New Classical Macro and New Keynesian Explanations of the Business Cycle. Regularities of business cycles. Theories of output fluctuations: monetary, psychological, political etc. Imperfect information and the Real Business Cycle Model. Assessment of RBC model. New Keynesian explanations of the business cycle: markup pricing, sticky wages, monopolistic price setting, efficiency wages. Deterministic and stochastic cycles | 2 |
| L7 | Stabilization Policies. Demand and supply disturbances. Stabilization targets and instruments. Policy rules. Assessment of alternative rules: money supply, interest rate, and GDP. Policy pitfalls: lags, multiplier uncertainty, forecasting errors. Time inconsistency, credibility, and reputation. Rules vs. discretion. Policy dilemmas. | 2 |
| L8 | Labor Markets. Types of unemployment. The employment and unemployment rates. Voluntary and involuntary unemployment. The natural rate of unemployment. Structural unemployment. The output gap. The Okuns law. Policies to tackle unemployment problems. The phenomenon of jobless growth. National models of labor market. | 2 |

| Lecture | | |
|------------|--|--------------------------|
| No. | Subject matter of the course Detailed description of thematic blocks | No. of class hours |
| L9 | Money, Interest and Inflation. The Phillips Curve. Money and inflation. Effects of inflation. Costs of inflation. Unpleasant consequences of deflation. Nominal and real interest rates. The Fisher rule. Expectations and the inflation cycle. Anticipated and unanticipated inflation. Hyperinflation. Stagflation. Cures for inflation. Modern variants of the Phillips Curve. Income policies. | 2 |
| L10 | Monetarism and Expectations. The quantity theory and the neutrality of money. The modern quantity theory: monetarism. The money multiplier and the monetary base. Policy implications of monetarism. Rational expectations revolution. The Lucas supply curve. Different effects of anticipated and unanticipated money supply. The rational expectations equilibrium approach to policy | 2 |
| L11 | Benefits and Risks of Common Currency. Pros and cons for fixed exchange rates. Arguments in favor of eurozone accession. Potential challenges for eurozone members among the Central and East European countries. Discussion on the euro adoption issues in Poland. | 2 |
| L12 | Modern Problems of Public Debt. The government budget constraint, seignories, and the inflation tax. Determinants of rapid debt accumulation in industrial countries. Public debt macroeconomic effects. Dynamic features of public debt. Domestic vs. foreign financing of budget deficit. European Pact of Stability and Growth. Non-Keynesian effects in fiscal policy. Public debt challenges in Poland. | 2 |
| L13 | Costs and Benefits of Migration. Models of migration behavior. Return and repeat migration flows. The Roy model of migrants selection. Static and dynamic costs of migration for donor- and acceptor countries. The labor migration trap in donor countries. Brain drain. Challenges for labor market liberalization in the European Union. | 2 |
| L14 | The Role of Government in a Modern Economy (the lessons of the 2008 World Economic Crisis). Sources of instability in the private economy: consumption, investment, regulation of financial markets. Business confidence, speculation, and overbuilding. Competing explanations of the 2008 World Economic Crisis real estate bubble, easy credit conditions, sub-prime lending, deregulation, over-leveraging, incorrect pricing of risk, commodities boom). Main lessons of the world economic crisis (money supply non-neutrality, control of asset prices, prudent fiscal policy during good times, focus upon non-price competitiveness, the current account adjustment, better management of risk in the financial sector, the danger of deindustrialization). | 2 |

7 TEACHING TOOLS

N1 Lectures (if online, with the use of the MS TEAMS and DELTA platforms)

N3 E-learning (handouts, tests, useful links on DELTA platform)

8 Student workload

| Activity form | Number of hours of activity |
|--|-----------------------------|
| Hours realized in contact with the teacher | |
| Hours resulting from the study plan | 30 |
| Consultation hours | 0 |
| Exams and tests during session | 0 |
| Hours of autonomous student work | |
| Preparing for classes, studying literature | 50 |
| Developing results | 25 |
| Preparing of reports, projects presentations, discussion | 0 |
| Total number of hours devoted to the subject | 105 |
| Total number of ECTS points | 3.00 |

9 Methods of grading

Partial grades

F1 Test

F2 Practical exercise

Summary grade

P1 Test

P2 Written exam
