Addis Ababa University
School of Economics

MSc/MA PROGRAM (AY 2012/2013)

Course  Macroeconomic Policy  (Econ 603)
Time  A one Semesters Course with 3 Credit hours
Instructor  Alemayehu Geda,
(Professor, School of Economics, AAU)
(AG112526@gmail.com  Web Page  www.Alemayehu.Com)

Main Text Book  (** must have/or read)

Course summary

The course “Macroeconomic Policy” is intended to introduce first-year MA/MSc students to the fundamentals of macroeconomic policy making in general and in the context of developing countries in particular. The course covers some of the basic elements of macroeconomic policy such as fiscal, monetary and exchange rate policy along with long-term macroeconomic objectives and macro tools that
could be used in that process. The course builds on “Macroeconomic theory” and attempts to provide students a flavor of macroeconomic policy in action.

Course outline
(Note: Chapters 2, 4 and 7, shaded blue, are the same with Advanced Macro II & are given together with that course)

Chapter 1. Fundamentals of macroeconomic policy making in developing countries

a. Broad objectives of macroeconomic policy in developing countries
   i. Macroeconomic stabilization such as balanced budget, sustainable debt, stable prices
   ii. Growth, employment and overall wellbeing
b. Approaches to macroeconomic policy making in developing countries
   i. Neo-liberal (Washington Consensus)
   ii. Structuralist approach
   iii. Macroeconomic pragmatism: aligning stabilization with growth objectives
c. The optimal macroeconomic policy problem
   i. The Tinbergen conditions
   ii. Theil’s Loss function
   iii. Optimal macroeconomic policy

Reference
*Federal Reserve Bank of New York Economic Review on Monetary Policy Transmission Mechanism
*Persson and Tabellini, Ed. (1990) Macroeconomic Policy ...
*Special Issue of the Journal of Economic Perspectives 1995 on Monetary Policy Transmission Mechanism
Chapter 2 Government Budget Deficit and Fiscal Policy

a) The Role of the State in the Macroeconomic
b) The Government Budget Constraint
c) Alternative explanation of Budget deficits
d) Ricardian equivalence and its failures
e) Tax smoothing
f) Political-Economy Theories of Budget Deficits
g) Financing of Budget Deficits
h) Seigniorage and Inflationary Finance
i) Strategic Debt Accumulation
j) Delayed Stabilization
k) Empirical Application: Politics and deficits in Developing countries
l) Debt Crises

References:
* Agenor (2006) ch 3
* Handbook Ch. 22 and 25
* Romer Ch.11
* Walsh (1998), Monetary Theory and Policy, Cambridge MA: MIT Press, Ch. 4

Friedman and Hahn, Handbook of Monetary Economics ch 17
Chapter 3  Debt, poverty reduction and economic Stabilization issues

a. Debt issues
i. Africa’s debt burden
ii. Debt relief issues
iii. Macroeconomic Effect of Aid/Debt creating flows
   1. The Fiscal Response
   2. The Dutch Disease
iv. Debt overhang, Capital flight and economic consequences thereof

b. Poverty reduction (From HIPC to MDRI)
i. History of Poverty Reduction Macro Policy (SAPs to PRSPs/MDGs)
ii. Growth, Poverty and Inequality in Africa/Ethiopia

Reference


**van Wijnbergen, Sweeder (1984), The ‘Dutch Disease’: A Disease After All? The Economic Journal, March: 41-55.**


Agenor (2006), Ch. 3
Caves et al (2002), Chapter 27 & 28
Hallwood, Paul and MacDonald (2000), Chapter 13, 15, 16
Obstfeld Maurice and Kenneth Rogoff (1996) Chapter 6

Chapter 4: Money, Inflation, Monetary Policy and Dynamic Inconsistency Issues (with Case Study of Inflation in Ethiopian)

a) Financial Innovations and Demand and Supply of Money
b) inside and outside money
c) the money supply process
d) Inflation and Monetary Policy
e) Dynamic Inconsistency and Credability issues
f) Inflation in Africa and Other Developing Regions

References


*Hahn, F., and B. Friedman (??) Handbook of Monetary Economics. North Holland. Ch 17


*Romer, ch 10


*Walsh (1998), Monetary Theory and Policy, Boston: MIT Press, Chs.1, 2, 7 and 8


Agenor (2006) Chs 4 and 6


Friedman, M. (1969), The Optimum Quantity of Money and Other Essays. Weatsheaf

Fry, Maxwell J. (1988), Money, Interest and Banking in Developing Countries 2ed


Senbet and Ncube/ Aryeetey (??) AERC plenary paper on Financial Markets in Africa

(Ch 5 is Optional)

**Chapter 5**

**The Exchange rate and Macroeconomic Performance**

c. Approaches to determine impact of devaluation
d. Real (effective) exchange rate: concept and measurement
e. Review of exchange rate determination

**Reference**

*Agenor (2006) Ch5*
*Agenor and Montiel Chs. 6 and 7*
Alemayehu Geda, Chapter 5
Hallwood, Paul and MacDonald (2000), Chapter 7 & 9-12
Chapter 6: Trade, Industrial and Macroeconomic Policy in the Fast Growing Asian Countries and the Lesson for Africa

References


**Chapter 7  Heterodox Macroeconomics and Applied Macroeconomic policy models in Africa**

a) Introduction to Heterodox Macroeconomics (Structural Macroeconomics)  
   i. Basic Assumptions of Structuralist Macroeconomics  
   ii. The implications for Macro Models  

b. Types of macroeconomic models: a review  
c. Three gap models  
d. Bank-fund modes  
   i. The IMF financial programming model  
   ii. The World Bank RMSM-X model  

e. Economy wide models and forecasting techniques  
   i. CGE  
   ii. Macro-econometric models  
   iii. Applied African Econometric Models and their Policy use  

**References:**

* Agenor and Montiel (1996), *Development Macroeconomics*, Ch. 8  
* Agenor (2006), Ch 9  

**Additional Readings**


Alemayehu Geda (2002), Ch 3  


Khan, M. S. and M. Knight (1981) “Stabilization Programs in Developing Countries: A formal framework” *IMF Staff Papers*, Vol. 28, No. 1


Pallely (1996)

Snowdon and Vane (2005), Ch 7,8 and 10


Grading Weights

<table>
<thead>
<tr>
<th>Grading Weight</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Exam</td>
<td>50-60%</td>
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<tr>
<td>Term paper</td>
<td>30-40%</td>
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<tr>
<td>Class presentation</td>
<td>10-15%</td>
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**Term Paper Suggested topics for this term (2010/2011).**

The term paper should be done by 2 students. 10-15 pages, single or 1.5 line spacing and 12 font (submitted in electronic/typed form on the deadline).

- Inflation in Ethiopia
- The Construction Sector and Employment Creation
- The IT and Telecommunication Sector Policies
- The Macro Policy of Ethiopia and Poverty
- Investment and Macroeconomic Stability
• The Financial Sector and Macro Policy
• Fiscal Policy and Debt Problems
• Parallel Market Exchange Rate, Remittance and Capital flight
• The Political Economy of Macro Policy Making
• The Logic of Price Control and Its Problems in Ethiopia
• Or any other topic that interests you