AFRICAN ECONOMIC RESEARCH CONSORTIUM

COLLABORATIVE MASTERS DEGREE PROGRAMME (CMAP) IN ECONOMICS FOR SUB-SAHARAN AFRICA (EXCEPT NIGERIA)

MACROECONOMICS

COURSE OUTLINE

(Revised: February, 2014)
1. Introduction
This course is an advanced treatment of contemporary macroeconomic theory. Current controversies will be discussed as well as relevance of theoretical and policy issues in an African context. It is structured to ensure that macroeconomic problems and analysis that are centrally important at the beginning of the 21st century are fully treated. Thus, the course gives prominence to the dynamic open-economy aspects of macroeconomics, including problems of policy credibility. Therefore it engages with both the mainstream of modern, advanced macroeconomics and the main characteristics of African countries' macroeconomic issues. It contrasts with traditional courses which are organized around the counter position of Keynesian and Classical (or monetarist) results in a comparative static, closed economy framework. This course outline covers two semesters of 120 hours.

2. Objectives of the Course
The aim of the course is to equip the students with rigorous macroeconomic tools with the African flavour. At the end of the course, students are expected to be able to:

a) thoroughly understand the structure of a macroeconomic system and its underlying theoretical framework;
b) use methodology and techniques studied in conceptualizing and postulating relevant macroeconomic issues;
c) evaluate macroeconomic policies;
d) cultivate a critical perspective to current developments in macroeconomics.

3. Pre-requisites for the Course:
The pre-requisite is that the student has a satisfactory knowledge of intermediate macroeconomics and quantitative techniques.

4. Readings
The following three textbooks are recommended:


However, no single textbook would be adequate for the course. The three textbooks are not, in general, intended to be alternatives. In most topics, the textbook references are complements, each offering specific parts of the whole topic.

**Other selected textbooks**


**5. Course Assessment**

The course assessment will consist of coursework assignments, tests and a final examination. The mark allocation will be as follows:

- Coursework 40 marks
- Final examination 60 marks.
Course Outline

SEMESTER I

1. Introduction [6 Hours]
   - A review of evolution of macroeconomics
     - Classical
     - Keynesian
     - Monetarism
     - New Classical
     - New Keynesian


2. Closed Economy Macroeconomics [10 Hours]
   - The static and dynamic IS-LM model (product and money market equilibrium).
   - Aggregate demand
   - Aggregate supply (Different types of labour markets; classical, Keynesian, new Classical)
   - Determination of rate of interest, national income and price level
   - Monetary and Fiscal policy

Agenor & Montiel Ch 3.
Branson Ch 4, 5, 7 and Ch 17.
Hicks, J.R., (1937), Mr Keynes and the Classics, Econometrica, Vol 5, p 147-59.

3. **Open Economy Macroeconomics** [14 Hours]

- IS-LM-BP model (Under both fixed and flexible exchange rate systems): the Mundell-Fleming model.
- Aggregate demand and aggregate supply
- Monetary, Fiscal and Exchange Rate Policy
- Balance of payments theories: elasticities, absorption, and the monetary approaches.
- Theories of Exchange rate determination (Monetary theory, PPP Theory, Elasticity approach, Balassa-Samuelson Model, Dornbusch Model etc)
- External and internal balance and the theory of economic policy.
- Rational Expectations and Aggregate supply
- Imperfect competition and Aggregate demand

Agenor & Montiel Ch 2.
Murshed Ch 1-7 & 11.

Sachs, J., Larrain, F., (1993), Macroeconomics in the Global Economy

4. Consumption and Saving [12 Hours]

- Theories of Consumption: Absolute income hypothesis, Relative income hypothesis, Permanent income hypothesis, Life-cycle hypothesis, Hall’s rational expectations hypothesis
- Saving and portfolio decisions
- Ricardian equivalence theorem
- Dynamics in consumption and saving
- Applications and relevance of consumption and saving theories to developing countries

Agenor & Montiel Ch 3.
Branson Ch 12.
Romer Ch 8.
Keynes, J.M, Ch 8-10.

5. Investment [8 Hours]

• Theories of Investment: Neoclassical model, Marginal efficiency of capital, Accelerator principle, Tobin’s q theory, Theory of Portfolio, Cash flow Theory, Overlapping Models of investments, Real option approach (investment under uncertainty), Euler Equation model of Investment etc.

• Application of theories of investment in Africa

Agenor & Montiel Ch.3.
Branson Ch 13.
Romer Ch 9.
Keynes, Ch 11-12, 16.

6. **Labour Market and Unemployment** [10 Hours]

- Efficiency wages in models of unemployment
- Search and Matching models
- Hysteresis
- Labour market issues in developing countries: informal sector, under employment, brain drain, demand pull and supply push

Branson: ch.6, 7, 10, 11 & 20.
Romer: ch.10.
Agenor & Montiel: ch.2, chs.9 & 17.
Aigbokhan, B.E., Efficiency wage, Rent sharing theories and wage determination in the manufacturing sector in Nigeria, AERC RP 222
Aminu, A., Government wage review policy and public- private sector wage differential in Nigeria, AERC RP 223
Wamuthenya, W. (2010), Determinants of employment in the formal and informal sectors of the urban areas of Kenya. AERC 194
SEMESTER II

7. Economic Growth  [18 Hours]

- Introduction and stylised facts about economic growth
- Neoclassical theory and growth accounting
- Endogenous growth
- Empirical literature

Agenor & Montiel: ch. 15.
Romer: chs1-3.

8. Real Business Cycles  [8 Hours]

- Stylized facts about economic fluctuations
- Theories of fluctuations
- A baseline Real business cycle model

Romer, ch.5
Snowdon and Vane, ch6.
9. Inflation, Expectations and Monetary Policy [16 Hours]

- The short and long run Phillips curve
- Expectations: static, adaptive and rational
- Rational expectations in macroeconomic policy models
- Instruments, targets, and transmission mechanisms of monetary policy
- Dynamic inconsistency of low inflation monetary policy
- Rules vs discretion of monetary policy
- Stabilization theory and policy

Suliman,M.K., (2012). The determinants of inflation in Sudan, AERC RP 243

10. Financial Markets [8 Hours]

- Financial markets: nature, structure and functions
- Stock market
- Bond market
- Foreign exchange market
- Financial markets in Africa


11. Budget Deficit and Fiscal Policy [10 Hours]

- Measurement of deficits
- Government budget constraint
- Solvency and sustainability of budget deficits
- The budget process and political economy theories of budget deficits.
- Empirical application: politics and deficits in developing countries.
- Management of public debt

Agenor & Montiel, Chs.4, 6 & 10.
Romer: Ch.12.