| **Lecture session 6** |
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| **In-class group work on exercise 2. Prepare for presentation and review of exercise 2.**<br><br>**7. Fiscal and Monetary Policy: Theoretical Considerations**<br>7.3 Effectiveness of fiscal and monetary policy: short run and long run<br>7.3.1. Effectiveness of FP<br>[1] Under a fixed exchange regime<br>[A] Under capital mobility<br>[B] Under capital immobility<br>[2] Under a flexible exchange regime<br>[A] Under capital mobility<br>[B] Under capital immobility<br>7.3.2. Effectiveness of MP<br>[1] Under a fixed exchange regime<br>[A] Under capital mobility<br>[B] Under capital immobility<br>[2] Under a flexible exchange regime<br>[A] Under capital mobility<br>[B] Under capital immobility<br>7.3.3. Short-run implications: price rigidity, capital mobility, coordination and expectations<br>7.3.4. Long-run implications: policy intervention is repeated |
| **Study questions:** How does the use of fiscal or monetary policy affect macroeconomic variables? How effective is the use of fiscal policy (increasing government spending relative to taxes) or monetary policy (increasing the rate of growth of money supply) when an economy is closed or open, whether the economy has a fixed exchange regime or a floating exchange regime? How does the length of run matter for the effectiveness of the policy? What are the advantages and disadvantages of a flexible regime versus a fixed regime? What are economic factors to consider when selecting an exchange regime? Does a nominal change in the exchange rate have a lasting effect on a country's competitiveness, economic growth, employment or output? How does the degree of capital mobility matter for the effectiveness of fiscal or monetary policy? |