

Lecture session 7

8. Aggregate and Aggregate Supply: P, Y Relationship

- 8.1 AD: P, Y relationship on demand side
 - 8.1.1. Following ΔP through AD: $Y = Y(M/P; C(Y), I(i, Y), G, BOT(E \cdot P_F/P_H; Y))$
 - 8.1.2. Shifts in AD
- 8.2 AS: P, Y relationship on supply side
 - 8.2.1. Following ΔP through labor market (un/employment, wages and market power)
 - 8.2.2. Shifts in AS
- 8.3 AD, AS equilibrium: natural level of output; natural rate of unemployment

Discuss exercise 3. Long-term implications of macroeconomic expansionary policy

9. Domestic macroeconomy: monetary targets, inflation, unemployment, and unorthodox MP

- 9.1. Monetary targets and the trilemma: exchange regime, MP independence and capital markets
- 9.2. Macroeconomic concerns with inflation/deflation
 - 9.2.1 Problem with inflation
 - 9.2.2 Problem with deflation
- 9.3. Macroeconomic concerns with employment/unemployment
 - 9.3.1 Inflation, unemployment relationship
 - 9.3.2 Revisit debates over fiscal and monetary policy
 - 9.3.3 Why governments ceded control over MP
 - 9.3.4 CB independence
 - 9.3.5 Phillips curve's evolution
- 9.4 Unorthodox MP
 - 9.4.1 Traditional MP
 - 9.4.2 Non-traditional MP: quantitative easing (QE) and negative interest rates
 - 9.4.3 Forms of QE
 - 9.4.4 Negative interest rates
 - 9.4.5 MP after unconventional MP

Study questions: What is the trilemma that confronts any central bank? How do you explain the trade-offs among exchange rate regime (fixed, flexible), monetary policy independence, and capital market liberalization? Why/when is inflation a concern? Why/when is deflation a concern? When is the level of unemployment/employment a problem? What does full employment imply in a macroeconomic context? Why is inflation stable at a particular rate of unemployment? How does fiscal and monetary policy affect inflation/unemployment? Why have governments ceded control over monetary policy to central banks? Why is central bank independence important and how has the relationship between inflation and unemployment affected central bank independence? What is the Phillips curve and how has it evolved? What does the AD=AS equilibrium represent in a macroeconomic context?