



INSTITUTE
OF ECONOMIC STUDIES
Faculty of Social Sciences
Charles University

Economic Policy

Spring Term

Professor: [Ing. Vladimír Dlouhý CSc.](#)
[Petr Janský Ph.D.](#)

Office hours: by personal arrangement
Contact: vd@vdlouhy.com
Course Code: JEB020

Course Description:

This course is intended for all students who want to supplement their theoretical studies with practical experiences from the 20th century's economic policies. However, it is especially intended for those students who will seek employment in the financial and banking sector, particularly in state administration. After an introductory lecture, the course starts with a discussion of economic developments in the major economies from 1870-1913, stressing the importance of the gold standard. The following lectures will tackle the economic situation after WWI, the hyperinflation of the 1920s, and the restoration of the gold standard, the causes and depth of the Great Depression and the consequences of the Keynesian revolution for macroeconomic policies. The course continues with the period after WWII: the birth and building blocks of the Bretton-Woods system, the post-war reconstruction (including the Marshall Plan) and the birth of the European monetary system (EMS) and European integration.

A discussion of the economic policies toward the end of the 1950s and 1960s will follow, based on neoclassical synthesis (Philips curve, Okun's law) and with fixed exchange rates. The next lecture is devoted to monetarism and later to rational expectations and the Lucas critique. The course follows with economic policies after the end of the Bretton-Woods system, with floating exchange rates and describing the reaction to stagflation of the 1970s.

The final three lectures deal with the stabilization policies of the 1980s (inflation and deficits), the European common currency project and finally, with different types of financial crises in both the developed world and emerging economies from 1980 until 2007.

Structure:

There will only be lectures for this course. There will be no seminars.

Instructions:

Please contact the IEF staff to learn more about the instructions for this course, including meeting times and how to register.

Requirements:

The course will be finished by the written exam, composed of eight questions. Five questions require a brief written answer, three questions are of the Yes x No type (each is devoted to a particular issue and contains three sub-questions). Passing the exam is the requirement for passing the course.

Academic Honesty:

Although students are encouraged to exchange ideas in and outside class, everybody is required to submit their own work. That means that copying the work of other students or published materials is strictly prohibited.

Course Content:

1. Introduction – 20th century: macroeconomics, economic policy and basic data

Macroeconomics and economic policy. Long-term growth trends in world regions. Long-term growth factors. Growth and welfare distribution. Short-term fluctuations after WWII: USA and Europe, growth, inflation, unemployment, budget deficit and current account deficit. The recent crisis.

2. Economic growth 1890 – 1913 and gold standard

Basic data, economic cycles 1870 – 1913. Economic growth and international capital flows. Gold standard and fixed exchange rates. Different expectations on economic policy compared with the 20th century.

3. First World War consequences and economic policies of 1920s

The economic consequences of peace talks. Critical indebtedness of defeated countries. Hyperinflation in Germany, Austria, Hungary and Poland: data, causes and policies. The return to the gold standard, differences to the period before 1913.

4. Great Depression and the end of the gold standard

Data: inflation and unemployment in the USA and in Europe 1928 – 1938. Alternative explanations of causes, depth and length of the Great Depression. The New Deal. The end of the gold standard and of the international monetary system. Crisis of economic theory.

5. Keynesian revolution

General theory, basic building blocks: labor market and involuntary unemployment, effective demand and unemployment equilibrium, consumption, savings and multiplier, marginal efficiency of investment, liquidity preference and interest determination on money markets.

Limiting cases: liquidity trap and interest inelastic investment. Policy consequences: fiscal and monetary stimulation of aggregate demand, multipliers. Impact of General Theory for post-war policies.

6. Bretton-Woods system, economic policies of post WWII reconstruction

International Monetary Fund, dollar-gold standard, USD as central currency. Post-war reconstruction: the new role of the state, heavy industry nationalization, different shades of indicative planning (France, Japan), social market economy (Germany), welfare state (Scandinavia). Origins of European integration, origin of EMS. Data: extraordinary economic growth (USA, Europe, Japan), shallow economic cycle.

7. Economic policy of the 1960s, neoclassical synthesis

Neoclassical synthesis: general acceptance of Keynesian policy recommendations. Neoclassical model with Phillips curve: inflation–unemployment trade-off, long-term stability problem. Interdependence among unemployment, wage inflation and productivity. Potential product (at full employment). Okun's law. Economic policies in 1950s and 1960s in USA and Great Britain: stop and go, rebirth of monetary policy, Kennedy's tax cuts (USA), Radcliffe Report (Great Britain), stabilization at fixed exchange rates.

8. Monetarism

Quantitative theory and demand for money. Keynesian and monetarist transmission mechanism. Implications of monetary policy efficiency. Natural values (unemployment/employment, product). Expectations-augmented Phillips curve, turn in empirical evidence after 1970 (Europe, USA). Policy consequences: adaptive expectations, accelerationist hypothesis, speed and costs of disinflation, rules vs. discretion. Foundation of rational expectations and Lucas critique.

9. End of Bretton-Woods system, floating exchange rates, stagflation and subsequent disinflation, liberalization at beginning of 1980s.

Economic policy of floating exchange rates. New dynamics of international capital flows. Policy reaction to oil shocks and lasting recession in developed countries. Economic policy of fast growing South Asian economies. Disinflation and twin deficits in the USA. Crisis of post-WWII economic policies – new administrations of Margaret Thatcher and Ronald Reagan. Supply side economics. Privatization and liberalization. Tax cuts and diminishing role of state, Laffer curve.

10. Stabilization policies 1980 – 2007

Unemployment and budget deficits in USA and Europe. Hyperinflation in Israel and Latin America. Central banks' independence and anti-inflationary policies. Inflation targeting, Taylor rules. Beginning of 21st century: USA – Great Moderation, Europe – stagnation and need of

structural reforms, emerging economies – BRICs.

11. The Euro

Competitive devaluations and the leading role of D-Mark in the 1980s. Suitable economic and political conditions for a common currency project at the beginning of 1990s. Delors Report, meeting Maastricht criteria. Introduction of Euro and stable performance 2002 – 2007. Causes and deepening of common currency crisis, attempts for resolution. Today's situation.

12. Financial crisis in different parts of the world 1980 – 2013

Financial crisis in selected developing countries in the second half of the 1980s. German unification and EMS crisis in 1992. Currency crisis: Mexico (1994), Thailand (1997), Southeast Asia (1998). Financial and economic crisis after 2007. Policy lessons for coming years.

Reading Materials:

Literature will be presented always at the end of each lecture.