

GOVERNMENTS, FINANCIAL MARKETS AND THE MACROECONOMY

Fall 2026

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Office hours: Friday 5-6pm
or by appointment

OBJECTIVE

This course analyzes the complex, and so often nowadays very subtle yet very powerful, interactions among policy-makers (governments and central banks), financial markets and the macroeconomy. It is a course about the overall economic and financial environment in which economic agents –governments, central banks, firms, financial institutions, investors, households– operate. It is about identifying the major forces at work in the global economy and financial markets; understanding their complex interactions; recognizing the dilemmas they pose to national and international policy-makers; and identifying the risks and opportunities they create for all economic agents.

By necessity, the course covers many diverse topics, such as, business cycles, inflation and deflation, balance of payments, exchange rates, international capital flows, stabilization policies, and the interactions between financial markets and the “real” economy. Special emphasis is placed on interest rates and exchange rates, as well as on the role of asset prices in the workings of the economy and in the conduct of economic policy. In addition, it draws extensively on economic history and the current international environment in order to tie its conceptual tools to the “real world”.

Essentially, the course aims at teaching how to anticipate macroeconomic developments in the fast-changing global economy, taking into account financial conditions. Specialized courses in the program teach how to design business and investment strategies to cope with the *risks* these developments entail *and* (possibly) profit from the *opportunities* they create.

BOOKS & READINGS

Κυβερνήσεις, Χρηματαγορές και Μακροοικονομία (2^η έκδοση 2019, α' ανατύπωση 2022), Άγγελος Α. Αντζουλάτος, Εκδόσεις ΔΙΠΛΟΓΡΑΦΙΑ.

ORGANIZATION & GRADING

1. Grading: *Final exam*: 100%
✓ Class participation: up to 20% grade bonus.
2. Three asterisks (***) denote required readings, two (**) strongly suggested readings and one (*) suggested readings.
3. Understanding the objectives and policy instruments of major players in the international economic arena is of paramount importance for forward-looking business people. It is highly recommended that the students visit the web pages of such players, like the IMF (International Monetary Fund) to learn about them. The addresses of some of them follow:
 - ✓ www.imf.org International Monetary Fund (IMF)
 - ✓ www.oecd.org Organization for Economic Cooperation & Development (OECD)
 - ✓ www.bis.org Bank for International Settlements (BIS)
 - ✓ www.federalreserve.gov Board of Governors of the Federal Reserve System
 - ✓ www.ecb.int European Central Bank (ECB).
4. Valuable market intelligence and economic analyses can be found in the online publications of the above organizations, as well as in the following sites (the list, of course, is far from exhaustive)
 - ✓ www.newyorkfed.org Federal Reserve Bank of New York
 - ✓ www.economist.com *The Economist*
 - ✓ www.ft.com *Financial Times*

COURSE OUTLINE

1. INTRODUCTION (~½ week) Chapter 1**, Chapter 20*, Section 18.4*

a) MONITORING ECONOMIC & FINANCIAL DEVELOPMENTS – PROBLEMS AND CHALLENGES

b) SOME INVESTMENT DILEMMAS

- Current State of the World Economy
 - *OECD Economic Outlook, Interim Report September 2026*** (released on September 23, https://www.oecd.org/en/publications/oecd-economic-outlook-interim-report-september-2026_f751d02b-en.html)
- Country economic prospects [**OECD Economic Outlook, Volume 2026 Issue 1**](#) (released on June 3)
 - Check the **Country snapshots** for Greece for a summary of the current trends and policy dilemmas
 - Explore the Statistical Annex, <https://www.oecd.org/en/topics/sub-issues/economic-outlook/oecd-economic-outlook-statistical-annex.html>, for a wealth of information and projections for the OECD countries and the world economy

c) COURSE DESCRIPTION

2. BASIC CONCEPTS (~3½ weeks)

a) NATIONAL INCOME ACCOUNTING: MEASURING GNI/GDP Sections 2.1 – 2.2***

- *Policy concerns*: Measuring wellbeing
- *Practical issues*: Measurement problems

b) A CLOSER LOOK AT THE EXTERNAL ACCOUNTS OF A COUNTRY Sections 2.3 – 2.4***

- Foreign assets vs. Foreign liabilities
- GNI vs. GDP and Current account vs. Net exports
- Current account, Capital flows account, Balance of payments
- Financing current account deficits: Challenges & Dilemmas
- *Policy concerns*:
 - The sustainability of current account deficits
 - Greece's persistent CA deficits – Short-term dilemmas, long-term problems

c) THE SAVING – INVESTMENT IDENTITY Section 2.5***

- *Policy concerns*:
 - Is a current account deficit necessarily bad?
 - Implications of Greece's low savings rate

d) PRICE INDICES & INFLATION Sections 3.1***, 3.2*, 3.3 – 3.5***

- *Practical issues*: Measurement problems

e) REAL INTEREST RATE Sections 4.1 – 4.2***, 4.3 – 4.4**

- *Policy concerns*:
 - Why save in hyper-inflation countries?
 - Financial liberalization and real interest rates
 - High interest rates during stabilizations

f) INFLATION, HYPERINFLATION, DEFLATION Sections 5.1 – 5.2***, 5.3 – 5.5**

- *Policy concerns*: The destabilizing cycle of inflation-deflation fears

g) BUSINESS CYCLES Sections 6.1 – 6.2***, 6.3 – 6.5*

3. SHORT-RUN DYNAMICS – I: THE IS/LM MODEL (~3 weeks)

- a) MICRO-FOUNDATIONS Chapter 7***
- b) IS/LM MODEL: EQUILIBRIUM & SCENARIO ANALYSIS Chapter 9***, Sections 10.1 – 10.2***
- c) MONETARY & FISCAL POLICY: A FIRST LOOK Sections 10.3 – 10.4***
 - *Policy concerns:*
 - The monetary policy transmission mechanism
 - Monetary policy: Too little, too late?
 - Monetary policy: When “orthodox” policies fail...
- d) OTHER ANALYSES Section 10.5***
 - Taxes: To cut or Not to cut?
 - The role of expectations
 - The stock market and other asset markets
 - International transmission of business cycles: A first look
- e) BUDGET DEFICITS AND GOVERNMENT DEBT Section 10.6***
 - *Policy concerns:*
 - Greece’s adjustment programs in the 2010s – Any (reasonable) hope for success?

4. MONETARY POLICY (~2 weeks)

- a) BRIEF INTRODUCTION TO BANKING Sections 11.3 – 11.5**
- b) MONEY SUPPLY & THE ROLE OF THE BANKING SYSTEM Sections 11.1 – 11.2***, 11.6***
 - *Policy concerns:* Monetary policy and financial stability
- c) MONETARY POLICY – TOOLS, INSTRUMENTS, CONSTRAINTS Sections 12.1 – 12.3***
 - *Practical issues:* Monetary policy guideposts
- d) ASSET PRICES & MONETARY POLICY: ENDOGENOUS CREDIT CYCLES, BUBBLES, CRISES Section 12.4**
 - *Policy concerns:*
 - Central bank independence
 - Central bank actions and inequality

5. SHORT-RUN DYNAMICS – II: THE MUNDELL-FLEMING MODEL (~4 weeks)

- a) EXCHANGE RATES: NOMINAL VS. REAL; BILATERAL VS. EFFECTIVE Sections 13.1 – 13.3***
- b) INFLATION AND EXCHANGE RATES Section 13.4***
- c) EXCHANGE-RATE REGIMES – DESCRIPTION AND HISTORY Section 13.5*
- d) INTEREST RATE PARITY – THE ROLE OF EXCHANGE-RATE EXPECTATIONS Sections 14.1 – 14.4***
 - *Practical issues:*
 - Interest rate convergence in the EMU
 - Self-fulfilling devaluation expectations
 - Measuring the credibility of monetary (& exchange rate) policy
 - Taking calculated risks in Emerging Markets
 - The role of capital controls
- e) MODELING THE CAPITAL-FLOWS ACCOUNT Section 14.5***
- f) EQUILIBRIUM IN THE FOREIGN EXCHANGE MARKET Sections 15.1 – 15.3***
- g) THE MUNDELL-FLEMING MODEL Section 15.4***

~ Likely end of class ~

j) THE MUNDELL-FLEMING MODEL – EXTENSIONS I Chapter 16***

- Small country – Capital controls & sterilization
- Large country – Scenario analysis
- Other exchange rate regimes
- The perverse incentives of fixed exchange rates
- The ‘Impossible Trinity’

k) THE MUNDELL-FLEMING MODEL – EXTENSIONS II CHAPTER 17**

- International capital flows – Pros & cons
- Capital controls – Forms, goals, effectiveness
- Currency crises
- Fixed vs. floating exchange rates – Comparative analysis

l) THE INTERNATIONAL MONETARY SYSTEM CHAPTER 18*

- *Policy concerns:*
 - Euro’s institutional weaknesses (Section 18.4**)

6. THE ECONOMY IN THE LONG-RUN: PRODUCTIVITY & GROWTH Sections 19.1 – 19.3***

a) LABOR MARKET: EQUILIBRIUM & COMPARATIVE STATICS

- *Measurement problems:* Accuracy and reliability of productivity measures
- *Policy concerns:* What drives productivity?

b) STRUCTURAL VS. CYCLICAL UNEMPLOYMENT

c) LABOR-MARKET AND OTHER SUPPLY-SIDE REFORMS

- *Policy Concerns:*
 - Long-run unemployment – Any magic cure?
 - What drives growth?

7. LONG-RUN DYNAMICS – GOODS, MONEY, FOREIGN EXCHANGE AND LABOR MARKETS

Sections 19.4 – 19.5***

a) ADJUSTMENT TO LONG-RUN EQUILIBRIUM: PRICES & EXCHANGE RATES

b) STABILIZATION POLICY: PROSPECTS & PROBLEMS

8. TOPICS IN INTERNATIONAL ECONOMICS

a) THE EMERGING ECONOMIC ENVIRONMENT Chapter 20**