This course deals with the central macroeconomic model, used by central banks such as the ECB to stabilize inflation by means of interest rate policy: the NAIRU model. The first lecture outlines the canonical model and reviews the empirical literature. From NAIRU theory follow very strong recommendations concerning monetary policy (the Monetary Policy Rule), fiscal policy (something like the Stability and Growth Pact in Europe), and labour market policy (structural reforms to deregulate labour markets). The second lecture provides a critique, basically arguing why none of the three policy implications need to hold true. Specifically, it is argued that inflation-targeting by the central bank is not without important side-effects (contrary to the central claim of standard NAIRU economics) but does affect the real economy. We explain how and why this happens – and what it means for macroeconomic policy. The third and fourth lectures deal with the Eurozone crisis and argue that NAIRU-policies have helped to create the intra-Eurozone imbalances in major ways. The EU crisis responses continue to be guided by NAIRU economics, and are therefore likely to deepen the tendency toward divergence within the Euro Area.

Suggested Readings

**Lecture 1**

**Lecture 2**

Lectures 3 & 4


