

Fiscal Policy (F000685)

Course size *(nominal values; actual values may depend on programme)*

Credits 6.0

Study time 180 h

Course offerings and teaching methods in academic year 2024-2025

A (semester 2)

English

Gent

lecture

seminar

independent work

Lecturers in academic year 2024-2025

Heylen, Freddy

EB21

lecturer-in-charge

Offered in the following programmes in 2024-2025

[Master of Science in Teaching in Economics\(main subject Economics\)](#)

crdts

offering

6

A

[Master of Science in Complementary Studies in Economics](#)

6

A

[Master of Science in Economics](#)

6

A

[Master of Science in Economics \(Double Degree\)](#)

6

A

[Exchange programme in Economics and Business Administration](#)

6

A

Teaching languages

English

Keywords

Government spending, taxes, government debt, business cycle, long-term economic growth, employment, inequality, stabilisation policy, private consumption, investment, sustainability

Position of the course

This course studies the impact of fiscal policy on key macroeconomic variables (economic growth, employment) and on the social and ecological sustainability of economic activity in society. We consider both business cycle effects (the short run, stabilisation policy) and long-run effects (long-run growth, sustainability). Attention goes to theory and empirical research. On several occasions, we apply more advanced methods of economic modelling (e.g. dynamic optimisation, OLG modelling) and econometric testing (e.g. panel data estimation, VAR analysis). Special attention is paid to the difference of views among macroeconomic "schools", and to application to topical issues.

Contents

- 1 Effects of fiscal policy on economic growth and employment in the long run.
 - Employment and economic growth in the OECD countries in the last decades, differences between the US and European countries.
 - Effects of taxes and government expenditures on employment.
 - Effects of fiscal policy on economic growth (neoclassical and endogenous growth theory, impact of public investment and R&D expenditures).
 - Results of empirical studies, relevance in ongoing debates.
- 2 Effects of fiscal policy on social and ecological sustainability
 - Indicators of (un-)sustainability in different OECD countries
 - Impact of carbon taxes on environment, inequality (within and between generations) and macro performance, the importance of complementary policies
 - Impact of wealth taxes (inheritance taxes) on inequality and macro performance

- 3 Effects of fiscal policy on the business cycle and the fiscal multiplier.
 - Theories of fiscal policy, including Keynesian, neoclassical and Ricardian views on fiscal policy effectiveness
 - Fiscal policy in contemporary business cycle models such as real business cycle (RBC) and new Keynesian DSGE models.
 - Results of empirical studies into the level and determinants of the fiscal multiplier.
- 4 The dynamics of public debt.
 - Determinants of the interest-growth difference, budget deficits and public debt dynamics.
 - The long-term sustainability of public finances and (the debate on the) European fiscal rules.
 - Macroeconomic effects of fiscal consolidation and policies aiming at public debt reduction.
- 5 Other topics in fiscal policy, depending on recent developments.
 - E.g. fiscal policy and inflation.

Initial competences

Necessary: Have mastered good basic courses in microeconomics and macroeconomics, including consumer behaviour, the IS-LM-BP-model (Mundell-Fleming model), labour market modelling, basics of neoclassical growth theory (Solow growth model),... Have knowledge of basic empirical research methods (e.g. regression analysis) and mathematical optimisation techniques. Have knowledge of basic principles of public finance.

The course of Fiscal policy also makes use of material discussed in Macroeconomics in the first semester of the Master of Science in Economics (e.g. endogenous growth theory, the Diamond model of overlapping generations, dynamic optimisation,...). It is taken into account that not all students have this knowledge. At the same time, some willingness on the part of these students to make up for certain lack of knowledge through self-study is certainly desirable.

Final competences

- 1 Understand economic theories and models used for the analysis of the long-term effects of (changes in) the level and structure of public expenditures and taxes: effects on income per capita, economic growth, capital formation, and employment, and their mutual influence (general equilibrium effects).
- 2 Understand extensions of basic models aimed at analysing the impact of fiscal policy in broader policy issues. Explain the chosen extension, objectives and results. In particular, master extensions aimed at addressing issues of financial, social and environmental sustainability in society: public debt sustainability, income and wealth inequality, welfare inequality within and between different generations, CO₂ emissions and climate change). From there, consciously reflect on the broader context and societal impact of fiscal policy.
- 3 Understand and explain the macroeconomic effects of fiscal policy in the short and medium run (business cycle, private consumption,...). Explain the different views of macroeconomic schools, and understand the importance of assumptions made.
- 4 Understand the dynamics of public debt and explain its determinants, in particular also the determinants of the crucial interest - growth difference. See the relationship with the long-run sustainability of public finances and the discussion on fiscal norms in Europe. Understand and explain the effects and the determinants of the success (or failure) of policies aiming at public debt reduction (fiscal consolidation).
- 5 Know and interpret the main results of empirical studies on fiscal policy effects. Explain and critically approach the applied methodology (e.g. calibration and simulation, panel data econometrics, VAR and local projection analysis, narrative analysis).
- 6 Read independently, understand, and report the main assumptions, methods and results in papers from the macroeconomic literature on fiscal policy.

Conditions for credit contract

Access to this course unit via a credit contract is determined after successful competences assessment

Conditions for exam contract

Access to this course unit via an exam contract is unrestricted

Teaching methods

Seminar, Lecture, Independent work

Extra information on the teaching methods

Ex cathedra lectures in which basic knowledge is imparted.

Seminar: Interactive teaching with extensive participation by students when theory is built, and acquired knowledge is applied. At various times, exercises are given and worked out interactively.

Independent work: Students are expected to read carefully a selection of complementary papers published in journals (self-study of offered articles). The exam also contains some general questions about these articles.

Study material

Type: Slides

Name: Fiscal Policy

Indicative price: € 10

Optional: yes

Language : English

Available on Ufora : Yes

Online Available : Yes

Available in the Library : No

Available through Student Association : No

Additional information: Slides will be made available via Ufora the day before class. The listed price applies only to students who print the slides. Moreover, the number of slides printed on a page determines how many have to be printed.

Type: Reader

Name: Fiscal Policy

Indicative price: € 20

Optional: no

Language : English

Available on Ufora : Yes

Online Available : Yes

Available in the Library : No

Available through Student Association : No

Additional information: Each topic will be discussed relying on recent articles from the (generally English) scientific economic literature and on chapters in textbooks. Some articles concern the teacher's own research, sometimes with PhD students. All articles and chapters are made available via Ufora. I choose not to call the reader 'optional' since it contains the course material. It is important that students process and master this.

References

Articles and book chapters from relevant scientific literature.

Course content-related study coaching

Students can contact the lecturer and/or an assistant for content-related counselling: during breaks, after the lecture, by e-mail,...

Assessment moments

end-of-term assessment

Examination methods in case of periodic assessment during the first examination period

Oral assessment, Written assessment with open-ended questions

Examination methods in case of periodic assessment during the second examination period

Oral assessment, Written assessment with open-ended questions

Examination methods in case of permanent assessment

Possibilities of retake in case of permanent assessment

not applicable

Extra information on the examination methods

The end-of-term evaluation consists of an exam with a compulsory written and an optional oral part. Open questions.

Calculation of the examination mark

End-of-term evaluation (100%).