

Economics 430/471
Topics in Macroeconomics
Spring 2009
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Office Hours: M,W 9:00-10:30 and by appt.

This course is a survey of topics in contemporary macroeconomics. The prerequisites for the course are Econ 285 and 265, and Math 113.

The first part of the course focusses on economic growth. We will consider some basic theory and recent growth experiences in the U.S., Europe, Japan, China, India, and Africa. The second section of the course focuses on business cycles. Here we will be particularly interested in why recessions (including the current international downturn) occur in advanced capitalist economies and how effective monetary policy can be in controlling both the business cycle and inflation. In these two sections we will also consider how conflicting theories can coexist — i.e., why economists can disagree about the causes of growth, recessions, and inflation. A third shorter section of the course will (as time permits) cover some macroeconomic topics related to uncertainty and especially to the role of expectations about the future in determining macroeconomic activity.

1. Readings

Readings for the class are listed below. I may alter the list during the semester with fair warning. There is no text book for the course. All readings will be placed on electronic reserve. I have however, also placed a good intermediate macro text (Mankiw, *Macroeconomics*, 6th ed) and an accessible advanced macro text (Romer, *Advanced Macroeconomics*, 3rd ed.) on reserve at the library for reference.

2. Grades

For students not doing a senior project in this class, grades will be assigned as follows:

- Class participation, worth 25%
- Midterm, handed out Tuesday March 3, due in class Monday March 9 by noon (hard copy, KJ 217), worth 25% of your grade.
- Term paper, worth 25% of your grade. The paper will be developed in stages, as described on a separate sheet below, with due dates Monday March 2 (noon), Monday April 16 (noon), and Friday May 1 (4:00 pm) (all hard copy, KJ 217).
- Final exam (cumulative), due 4:00 pm, Wednesday May 13 (hard copy, KJ 217), worth 25% of your grade.

Students fulfilling their Senior Project in this class will have additional work that is described below.

I hope to be able to run this class partly as a lecture class and partly as a seminar. Thus, I will assign material for students to present and discuss in class on a regular basis.

3. Other Important Information

I strongly encourage you to meet with me regularly to discuss the readings, lectures, and your papers. In addition to my scheduled office hours, I am very happy to meet with you by appointment.

All work for this course is covered by the terms of the honor code.

Your ability to turn in the exams and papers (in hard copy) by the times posted above is a requirement for enrollment in this course. If you believe that you have a legitimate scheduling conflict, you must see me in the first two weeks to see if it can be resolved. Otherwise, no exceptions will be granted. Late work will not be accepted.

Speakers: Please plan to attend the public talks given by Naomi Klein on March 9 and Bill Easterly on April 23.

4. Reading List (dates given below are tentative markers)

Growth

1. Introduction (handout)
2. Standard Theory: The Solow Growth Model (Jan 22)
 - Jones**, (Ch. 1) The Facts of Economic Growth
 - Jones**, (Ch. 2) The Solow Model
3. Endogenous Growth Theory (Jan 29)
 - Plosser**, The Search For Growth
 - Mankiw**, Commentary: The Search For Growth
4. Growth Regressions (handout)
5. Growth in India and China (Feb 3)
 - Bosworth and Collins**, Accounting for Growth: Comparing China and India
6. Recovery, Growth, and Stagnation in Japan
 - Davis and Weinstein**, Bones, Bombs and Breakpoints: The Geography of Economic Activity
 - Hoshi and Kashyap**, Japan's Financial Crisis and Economic Organization
7. Growth in Africa (Feb 10)
 - Sachs**, Ending Africa's Poverty Trap
 - Easterly**, Was Development Assistance a Mistake?
 - Easterly**, Can the West Save Africa?
 - Rodrick**, Getting Institutions Right
8. More on Growth in the Advanced Capitalist Countries (Feb 17)
 - Maddison**, (Ch. 2) Changes in Economic Leadership
 - Elbaum and Lazonick**, The Decline of the British Economy: an Institutional Perspective
 - Nelson and Wright**, The Rise and Fall of American Technological Leadership: The Post War Era in Historical Perspective
 - Armstrong, Glyn and Harrison**, (Ch. 8) The Golden Years
 - Armstrong, Glyn and Harrison**, (Ch. 14) The Great Slowdown
 - Best**, (Ch. 2) Production Systems
 - Gordon**, Does the New Economy Measure Up to the Great Innovations of the Past?
 - Jorgensen, Ho and Stiroh**, Will the US Productivity Resurgence Continue?
 - Blanchard**, The Economic Future of Europe

Business Cycles

1. Intro to Macroeconomic Fluctuations, and Review of IS-LM and Price Adjustment Models (March 5)
 - Stock and Watson**, Business Cycle Fluctuations in U.S. Macroeconomic Time Series
2. The Great Depression (March 10)
 - Lee and Passell**, (Ch. 16) The Great Depression

- Bernanke**, Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression
Romer, What Ended the Great Depression?
3. Real Business Cycles? (March 12)
 - Plosser**, Understanding Real Business Cycles
 - Basu, Fernald, and Kimball**, Are Technology Improvements Contractionary?
 - Wolman**, The Frequency and Costs of Individual Price Adjustment
 4. The Recession of 1990-91 (April 2)
 - Blanchard**, Consumption and the Recession of 1990–91
 5. VARs (handout)
 6. The New Keynesian Synthesis (April 7)
 - Smets and Wouters**, Shocks and Frictions in U.S. Business cycles: A Bayesian DSGE Approach
 - Blanchard**, The State of Macroeconomics
 - Hall**, How Much Do We Understand About the Modern Recession?
 7. The Crisis of 2007-2009 (April 9)
 - Brunnermeier**, Deciphering the Liquidity and Credit Crunch 2007–2008
 - Hoshi and Kashyap**, Will the TARP Succeed? Lessons From Japan
 8. Monetary Policy, Oil Prices, and Macroeconomic Stability (April 16)
 - Mankiw**, U.S. Monetary Policy During the 1990s
 - Orphanides**, Monetary-Policy Rules and the Great Inflation
 - Fernald**, Why Hasn't the Jump in Oil Prices Led to a Recession?
 - Barsky and Killian** Oil and the Macroeconomy Since the 1970s

Uncertainty and Expectations

1. Review of Statistics (handout) (April 23)
 2. Rational Expectations (handout)
 3. The Cagan Inflation Model: Fundamentals and Bubbles (handout)
 4. More on Bubbles
 - Carroll**, Recent Stock Declines: Panic or the Purge of “Irrational Exuberance”?
 5. Learning and Expectational Stability
 - Georges**, Bounded Memory, Overparameterized Forecast Rules, and Instability
 6. Currency Crises (May 5)
 - DeLong**, Should We Still Support Untrammelled International Capital Mobility, or are Capital Controls Less Evil Than We Once Believed?
 - Quigen**, The Unsustainable US Trade Deficit
 - DeLong**, Divergent Views on the Coming Dollar Crisis
 - Cole and Kehoe**, A Self-fulfilling Model of Mexico's 1994-95 Debt Crisis
 - Krugman**, Will There Be a Dollar Crisis?
- Presentations of Senior Projects** will be scheduled during the week of May 4.

The paper assignment for this course is divided into three parts:

Part 1: due on or before Monday, March 2, at noon, in hard copy (KJ 217). 5% of course grade.

Extended abstract. Suggested length, 2-3 pages plus preliminary bibliography. You should define a research question. You should then state your (preliminary) plan for the paper and briefly summarize several (e.g., 5) journal articles on or related to that question, highlighting the methodologies used by the authors and their conclusions.

Part 2: due on or before Monday, April 6, at noon, in hard copy (KJ 217). 5% of course grade.

This paper is a draft of a portion of your final paper. In it you should define your research question (as above), and explain why the question is important. You should then discuss whether or not a consensus exists about the answer to your question, and why this is so. What are the major theoretical and empirical positions offered in the economics literature and how are they supported or refuted? The suggested length is 5 pages plus preliminary bibliography.

Part 3: due on or before Friday, May 1, at 4:00 pm, in hard copy (KJ 217). 15% of course grade.

This is the final version of your paper. The paper should build on the arguments developed in Part II. Define your question and explain why it is important. Provide an overview of the literature in which you identify sources (methodology, assumptions, data, etc.) of agreement and disagreement within the literature. Provide a detailed review of the central literature that you have read on your research question. Provide some comparative evaluations of various positions and methods that you present. Suggest a future empirical research project that would be useful in light of your review. How would you carry out the project? What data is available to carry it out? How conclusive do you anticipate its results to be? Finally, use publicly available *data* to either provide some preliminary evidence about your question or, if this is not feasible, to help illustrate your earlier discussion. Suggested paper length is 10 pages, plus bibliography.

Senior Project: Students taking Econ 471 as their Senior Project course should meet with me within the first two weeks of classes to start developing your topic and clarifying our expectations for the project. The paper assignment is as above, but with two additional elements. First, the suggested length for the final paper is 15 pages, rather than 10, and in determining the grade for the paper I will expect it to consider economic issues and methods within your subject area in greater depth and breadth than need be the case if you do not take this as your senior project course. Second, each Senior Project student will make a formal presentation of his or her work on this paper to the class during the last week of classes. Grades are as above, except the midterm will count for 20% of your grade and the senior project (paper and presentation) will count for 30%.

Here are some search engines for finding scholarly articles in macroeconomics:

Published articles: EconLit (search engine available via library)

Unpublished working papers: SSRN (Social Science Research Network: www.ssrn.com). This is a good source for recent papers that are not yet published in journals.

Other sources: The NBER (National Bureau of Economic Research: www.nber.org) maintains a working paper series that is of particular interest for macroeconomics. Various agencies such as the IMF (www.imf.org), Federal Reserve Board (www.federalreserve.gov), European Central Bank (www.ecb.int) etc., and various think tanks also produce important macroeconomic research.

Suggested Paper Topics

Here are a few example topics:

Survey recent debates about the causes of recessions.

What is the role of the housing market, consumption, or business investment (pick one) in the current downturn.

Why does employment fall so much during recessions.

Why didn't the recent increase in oil prices caused a recession in the U.S.

In what ways is the current recession in the U.S. different than the recessions in 1991 and 2001.

How should the Obama stimulus package be structured? How effective have different types of fiscal policy been in the past?

Why did the Japanese economy stagnate in the 1990s after growing rapidly since the 1950s. Why was the monetary policy conducted by Japan's central bank unsuccessful in reviving the economy.

How sticky are prices, and why are they sticky. Why does this matter at the macroeconomic level.

Pick a country or region (e.g., China, India, the Euro area), and evaluate it's recent macroeconomic performance and impact on the economies of other countries.

Is the U.S. trade (or budget) deficit unsustainable. How much further will the value of the dollar have to fall in order to correct the imbalance.

Will the euro replace the dollar as the dominant reserve currency.

Why have unemployment rates in Europe been chronically higher than those in the U.S.

Is increasing inequality in the U.S. being driven by globalization, technology, or both.

What caused the "great inflation" of the 1970s?

Should central banks practice inflation targeting? Should they try to control asset bubbles?

How has the Bernanke Fed changed the way that monetary policy is conducted in the U.S., and will this be successful? Is the current expansion of the Fed's balance sheet appropriate, dangerous, or both?

What do we know about the nature of unemployment during recessions?

What is the role of (pick one: geography, institutions, R&D, infrastructure, education, industrial policy, ...) in explaining differences in economic growth across national economies.

How do aggregate growth and fluctuations relate to the microeconomic and/or geographical distribution of economic activity (e.g., the distribution of firm sizes, the birth and failure of firms, the relative growth of various industries and geographic regions).

Survey the existing literature on agent-based modeling in macroeconomics.

Survey the existing literature on complexity and macroeconomics.

This is not at all meant as an exhaustive list, rather a list that might get you started thinking. Also, note that most of the topics on the reading list for this course would also make good paper topics.

Please make an appointment to talk to me soon about your topic. I can help you narrow down a topic and get you started with some readings or suggest how to conduct a search.

You will each give at least one brief presentation at the beginning of a class, independently or with another student. The topic should be a recent news item related to macroeconomics or some other information relevant to the course. If you present with another student, you should divide up the presentation so that each of you speaks for a few minutes on the topic (please keep the total presentation time to no more than 5 minutes). After the presentation, you will have a few minutes to field questions from the rest of the class or raise your own questions.

You must email the rest of the class (using the email list in Blackboard) with a condensed description of your topic and your sources (e.g., URLs) no later than 7:00 PM the evening before your presentation. In your email you can also raise a few questions for the class to think about prior to the presentation. All students in the class are expected to have read the materials that you have sent by class time.

You should use several types of sources for your information. For example, if you find an interesting topic in a news article from the New York Times, look for some data and/or a statement from a relevant government agency or think tank that will answer questions that you had about the coverage in the Times or supplement that coverage.

Many news sources are available directly on-line, others are available in hard copy in the library (e.g., The Economist) or the Levitt Center (e.g., Financial Times), and many are archived (full text) in Lexis-Nexis which is available through the library web page. The Wall Street Journal is linked electronically through ALEX. Links to a variety of government organizations, think tanks, blogs, etc., are provided on our department web resource page <http://www.hamilton.edu/academics/econ/Links.html>, and several are linked on my web page for this course. You might check out, for example, the weekly Economic Letter from the FRB of San Francisco, the cover articles in the Monthly Economic Trends publication from the FRB of St. Louis, or articles listed on the VOX EU web site or in the NBER working paper series. If you want to look at charts of recent data, try FRED at the St. Louis Fed, or Economagic, or go to the agency that publishes the data that you are interested in (e.g., the Bureau of Labor Statistics for unemployment or the CPI), the IMF, etc.