

Economics 504
Topics in Macroeconomics
Spring 2012
Chris Georges

Office: KJ 217
Phone: x4472
Office Hours: M 9:30-10:30; W, F 10:30-11:30 + apt
Web: academics.hamilton.edu/economics/cgeorges/

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

The first part of the course covers some theoretical and methodological tools that will be useful for reading and conducting research in macroeconomics. The second part focuses on the “great recession” of 2007-09 and its aftermath. We will also cover some macroeconomic topics related to uncertainty and expectations, including asset bubbles and financial crises. The last part of the course will be devoted to final student presentations of their research.

1. Readings

Readings for the class are listed below. I am likely to alter the list during the semester with advance notification. There is no text book for the course. Most readings will be placed on electronic reserve. I have however, also placed a good intermediate macro text (Mankiw, *Macroeconomics*, 7th ed) and an accessible advanced macro text (Romer, *Advanced Macroeconomics*, 3rd ed.) on reserve at the library for reference.

2. Grades

Grades will be assigned as follows:

- Class participation and presentations, worth 30%
- Midterm, handed out Thursday, March 29, due Friday, April 6 by noon (hard copy, KJ 217), worth 30% of your grade
- Senior project: paper and final presentation, worth 40% of your grade. The paper will be developed in stages, as described on a separate sheet below, with due dates Friday, February 17 (noon), Friday, March 30 (noon), and Monday, April 30 (4:00 pm) (all hard copy, KJ 217). Students will also discuss preliminary results during the semester, and final presentations will take place May 1 and 3 (in class) and May 11 at 7:00 pm.

I plan to cover some material in lectures. However, the course is designed as a seminar, and 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 projects. 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 exam and papers (in hard copy) by the times posted above is a requirement for enrollment in this course. Late work will not be accepted.

Speakers: Please plan to attend the public talk given by Edward Glaeser on Wednesday, April 11 at 7:30 pm in the Chapel. I also expect to arrange at least one other talk during the semester.

4. Reading List

I. Background and Methods

1. Introduction

Bernanke, Testimony to Congress, October 4, 2011 (online)

Romer, The Hope That Flows From History (online)

Lansing, Gauging the Impact of the Great Recession

Author, The Polarization of Job Opportunities in the U.S. Labor Market

PBS, Frontline: Inside the Meltdown (online)

2. Growth and Growth Accounting

Growth Rates (handout)

Bosworth and Collins, Accounting for Growth: Comparing China and India

Fernald and Matoba, Growth Accounting, Potential Output, and the Current Recession

3. Review of Keynesian and New-Keynesian Business Cycle Theory (no reading)

4. Real Business Cycle Theory

Plosser, Understanding Real Business Cycles

Basu, Fernald, and Kimball, Are Technology Improvements Contractionary?

5. Some Empirical Issues and Methods

Stock and Watson, Business Cycle Fluctuations in U.S. Macroeconomic Time Series

Blanchard, Consumption and the Recession of 1990–91

VARs (handouts)

6. New Keynesian DSGE Models

Smets and Wouters, Shocks and Frictions in U.S. Business cycles: A Bayesian DSGE Approach

Caballero, Macroeconomics after the Crisis

II. The Great Recession of 2007-2009

7. The Financial Crisis of 2007-2009

BIS, The Global Financial Crisis

Brunnermeier, Deciphering the Liquidity and Credit Crunch 2007–2008

Gorton, The Subprime Panic

Adrian and Shin, Money, Liquidity, and Monetary Policy

8. The Great Recession of 2007-2009

Mian and Sufi, The Great Recession: Lessons from Micro Data

Mian and Sufi, Consumers and the Economy Part II: Household Debt and the Weak Recovery

Mian and Sufi, What Explains High Unemployment: The Aggregate Demand Channel

Elsby, Hobjin, and Sahin, The Labor Market in the Great Recession

Weidner and Williams, What is the New Normal Unemployment Rate?

Farber, Unemployment in the Great Recession: Did the Housing Market Crisis Prevent the Unemployed From Moving to Take Jobs?

Woodford, Financial Intermediation and Macroeconomic Analysis

9. Lessons from the Great Depression?

Bernanke, Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression

Romer, What Ended the Great Depression?

Romer, Lessons From the Great Depression For Economic Recovery in 2009

10. Lessons from Japan?

Hoshi and Kashyap, Japan's Financial Crisis and Economic Stagnation

11. Monetary Policy and Macro-Prudential Regulation

Williams, Unconventional Monetary Policy: Lessons from the Past Three Years

12. Fiscal Policy: Multipliers and Sovereign Debt Crises

CBO, Estimated Impacts of the ARRA on Employment and Economic Output

Auerbach and Gorodnichenko, Measuring the Output Responses to Fiscal Policy

Barro and Redlick, Macroeconomic Effects form Government Purchases and Taxes

Romer and Romer, The Macroeconomic Effect of Tax Changes

Perotti, The "Austerity Myth": Gain Without Pain?

Reinhart and Rogoff, From Financial Crash to Debt Crisis

Ghosh, Kim, Mendoza, Ostry, Qureshi, Fiscal Fatigue, Fiscal Space, and Debt Sustainability in Advanced Countries

13. Oil Prices, Inflation, and Global Imbalances

Barsky and Killian, Oil and the Macroeconomy Since the 1970s

Orphanides, Monetary-Policy Rules and the Great Inflation

Haldane, Global Imbalances in Retrospect and Prospect

III. Additional Topics: Complexity, Uncertainty, and Expectations

14. Economic Complexity

Kirman, The Economic Crisis is a Crisis for Economic Theory

15. Uncertainty and Expectations

Review of Statistics (handout)

Rational Expectations: Fundamentals and Bubbles (handout)

Carroll, Recent Stock Declines: Panic or the Purge of "Irrational Exuberance"?

Georges, Bounded Memory, Overparameterized Forecast Rules, and Instability

Turner, Farmer, and Geanakoplos, Leverage Causes Fat Tails and Clustered Volatility

Krugman, Will There Be a Dollar Crisis?

You will each give at least one brief news 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. You might also look for and present charts of supporting data or find a journal article or working paper that provides additional supporting information.

Links to a number of government organizations, think tanks, blogs, etc., 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. More links are provided on our department web resource page: <http://www.hamilton.edu/academics/econ/Links.html> and the library's economics resource page.

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

Part 1: due on or before Friday, February 17, at noon, in hard copy (KJ 217). 5% of course grade.

Proposal. Suggested length, 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 Friday, March 30, at noon, in hard copy (KJ 217). 10% of course grade.

This paper is a preliminary draft of parts (introduction, literature review, empirical investigation) 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? Discuss in detail how they are supported or refuted. Discuss your plans for original empirical work on the question including methods and data availability. Provide any preliminary results that you have. The suggested length is 10 pages plus preliminary bibliography and supporting charts and tables.

Part 3: due on or before Monday, April 30, at 4:00 pm, in hard copy (KJ 217). 15% of course grade.

This is the final version of your senior project paper. The paper should build on the arguments developed in Part 2. 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. Discuss your original empirical work on your research question including methods, data sources, and results. Suggested paper length is 15 pages, plus bibliography and supporting charts and tables.

You should meet with me within the first two weeks of classes to start developing your topic and clarifying our expectations for the project. Note also that you will be asked to discuss your work in progress in class periodically during the semester and make a formal presentation to the class at the end of the semester.

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.

Starting to Think About Paper Topics

The “great recession” has generated a number of debates and questions. E.g.,

Why was the recession in the U.S. so deep? What were the proximate causes of the recession? What is the role of credit and the financial crisis – e.g., did credit dry up or did businesses and firms stop borrowing? What is the roll of the housing market, wealth effects, expectations, oil prices, etc. What industries and segments of the labor force have been hardest hit?

Why has the recovery in the US (and some other advanced economies) been so slow. Why has unemployment stayed so high? How much of this unemployment is “structural?” What is the role of small vs. large businesses, and the entry of new businesses in the recovery? What is the role of bank credit, home prices and foreclosures, debt overhang, expectations of the future, productivity growth, saving imbalances, sectoral imbalances, etc.

What are effects of the recession on long term dynamism of the economy (e.g., via innovation, long term unemployment, labor mobility, etc.).

How well did monetary policy, fiscal policy, and macro-prudential regulation perform in the recession? E.g., how effective was QE2, Operation Twist, the American Recovery and Reinvestment Act, or Dodd-Frank? How large are fiscal policy multipliers in general? Should policies be changed as a result of what we have learned? Does/should the Fed burst asset bubbles? Did the Fed keep interest rates too low prior to the recession? Can austerity be expansionary for countries with substantial sovereign debt?

These are some questions that might help you to get started thinking about possible topics. The readings on the reading list are another good place to start.

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.