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 covers economic growth. We will focus on documenting and explaining the slowdown and recovery in the growth rates of output and productivity in the US and other advanced capitalist countries since 1970 and the very poor long term performance of some third world economies. The second section of the course covers business cycles. Here we will concentrate on how well various business cycle theories are able to explain recent recessions and what implications these theories hold for the conduct of macroeconomic policy. In these two sections we will also want to explain how conflicting theories can coexist — i.e., why economists disagree broadly about the causes of growth and recessions. 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. One book, William Easterly’s *The Elusive Quest For Growth: Economists’ Adventures and Misadventures in the Tropics* is available at the bookstore. All other readings will be placed on electronic reserve.

It may also be useful at times for you to have a good intermediate macro text for reference. I have placed Mankiw’s text on reserve at the library. Other similar texts are fine as well.

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 Monday February 27, due in class Wednesday March 1, 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 Friday February 24, Friday April 7, and Friday, April 28.
- Final exam (cumulative), due 4:00 pm, Monday May 8 (KJ 256), 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 Alan Krueger (Princeton) on Monday, Feb 13, and Jagdish Bhagwati (Columbia) on Wednesday, March 1 (both are at 7:30 in the Chapel).
4. **Reading List** (dates given below are tentative markers)

**Growth**

1. Introduction (handout)
2. Standard Theory: The Solow Growth Model (Jan 18)
   - **Jones**, (Ch. 1) The Facts of Economic Growth
   - **Jones**, (Ch. 2) The Solow Model
   - **Armstrong, Glyn and Harrison**, (Ch. 8) The Golden Years
   - **Armstrong, Glyn and Harrison**, (Ch. 14) The Great Slowdown
4. A New Economy Since 1990? (Jan 30)
   - **Jorgensen, Ho and Stiroh**, Will the US Productivity Resurgence Continue?
   - **Gordon**, Does the New Economy Measure Up to the Great Innovations of the Past?
   - **Blanchard**, The Economic Future of Europe
5. Endogenous Growth Theory (Feb 1)
   - **Plosser**, The Search For Growth
   - **Mankiw**, Commentary: The Search For Growth
6. Growth Regressions (handout)
7. What About the Poorest Nations? (Feb 6)
   - **Sachs**, Ending Africa’s Poverty Trap
   - **Easterly**, The Elusive Quest For Growth
8. Leadership, Technology, Institutions, and Geography (Feb 15)
   - **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
   - **Best**, (Ch. 2) Production Systems
   - **Arthur**, Positive Feedbacks in the Economy
   - **Davis and Weinstein**, Bones, Bombs and Breakpoints: The Geography of Economic Activity
9. Globalization and the Labor Market (Feb 22)
   - **Freeman**, Are Your Wages Set in Beijing?
   - **Autor, Levy and Murname**, The Skill Content of Recent Technological Change

**Business Cycles**

1. Review of IS-LM and price adjustment models (no reading)
2. The Great Depression (Mar 6)
   - **Lee and Passell**, (Ch. 16) The Great Depression
3. Real Business Cycle Theory (Mar 8)
   - Plosser, Understanding Real Business Cycles
   - Mankiw, Real Business Cycles: A New Keynesian Perspective
   - Hall, The Relation Between Price and Marginal Cost in US Industry
   - Basu, Fernald, and Kimball, Are Technology Improvements Contractionary?

   - Blanchard, Consumption and the Recession of 1990–91
   - Hansen and Prescott, Did Technology Shocks Cause the 1990–91 Recession?

5. The New Keynesian Synthesis (Apr 3)
   - Smets and Wouters, An Estimated SDGE Model of the Euro Area

6. Monetary Policy in the U.S. and Japan (Apr 5)
   - 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 Kilian, Oil and the Macroeconomy Since the 1970s
   - Hoshi and Kashyap, Japan’s Financial Crisis and Economic Organization

7. Topics (Apr 17)
   a. Why are prices sticky?
      - Wolman, The Frequency and Costs of Individual Price Adjustment
   b. Is Inventory Behavior Stabilizing?
      - Scheinkman and Woodford, Self-Organized Criticality and Economic Fluctuations

    Uncertainty and Expectations

1. Review of Statistics (handout) (Apr 19)
2. Rational Expectations (handout)
3. The Cagan Inflation Model: Fundamentals and Bubbles (handout)
4. Currency Crises (May 1)
   - DeLong, Should We Still Support Untrammeled 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

Presentations of Senior Projects will be scheduled for two evenings, the week of May 1.
The paper assignment for this course is divided into three parts:

Part 1: due on or before Friday, February 24, in class. 5% of course grade.

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

Part 2: due on or before Friday, April 7, in class. 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, April 27, at 12:00 noon (KJ 256). 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 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 430 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:

What are the likely causes of the 2001 recession in the U.S. In what ways was this recession different than previous recessions. Or how does the experience of the U.S. compare to those of other countries.

Survey recent debates about the causes of recessions.

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.

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.

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

Is the U.S. trade (or budget) deficit unsustainable. Is the dollar heading for a crash.

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.

Why hasn’t the recent increase in oil prices caused a recession in the U.S.

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

What caused the “great inflation” of the 1970s?

Should central banks practice inflation targeting?

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

Is the Social Security System in the U.S. broken. What should be done about it.

How will recent and proposed tax cuts affect the performance of the U.S. economy.

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

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

In searching for a topic, note that there are numerous broad measures of macroeconomic performance. These include

- Output Growth
- Productivity Growth
- Unemployment
- Severity of Business Cycles
- Distribution of Income and Wealth (Inequality)
- Inflation.

There are in turn numerous debates over the causes of strong or weak performance in theory and practice. These causes include

- Saving, Investment, Capital Accumulation
- Innovation, R&D
- Human Capital, Training, Education
- Externalities
- Infrastructure, Public Investment
- Monetary Policy, Independence of Central Bank
- Fiscal Policy, Government Debt
- Sticky Prices, Volatile Prices, Inflation
- Self Fulfilling Expectations
- Credit Markets
- Shocks to: Spending, Production, Technology, Regions, Sectors, Policy, Expectations
- Private Debt, Corporate Debt, Foreign Debt
- Industrial Policy, Trade Policy
- Industrialization, Deindustrialization
- Business and Industrial Organization and Practice
- Social and Political Structure, Modes of Regulation
- Structure of Labor Market, Wage Growth and Flexibility, Corporatism

Many of these themselves require explanation.

There are also substantial literatures documenting and explaining the behavior of various aggregates over business cycles. These aggregates include

- Unemployment and its constituent causes (quits, layoffs, job creation and destruction, duration, nature of firms and jobs)
- Labor Productivity, Real Wages
- Production and Inventories
- Spending (consumption, investment, trade, and their components)
- Prices, Interest Rates, Income Shares

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.