

Topics in Macroeconomics

Introduction:

This course will use the tools of macroeconomics to address current questions in economic policy debates. These include the causes of the recent financial crisis, the use of unconventional monetary policies by the Federal Reserve, the effectiveness of fiscal stimulus, the slow recovery and the economics of Euro and US trade deficit.

The course makes extensive use of the framework taught in Intermediate Macroeconomics, Economics 100B or 100N. It also will teach some more advanced mathematical tools to examine some of the topics. Familiarity with the core material from Economics 100B is a prerequisite, and some knowledge of econometrics (at the level of Economics 113) is necessary to understand many of the readings. The course requires that you be able to work with basic economic models (including in a mathematical form), but the focus of the course will be on using your knowledge of macroeconomics to understand current economic issues. Students are strongly encouraged to bring up current problems for discussion in class, as time permits.

Textbooks and readings:

We will use an intermediate textbook for background: the textbook reading assignments are given to refresh and extend your knowledge of intermediate macroeconomics. You should simply choose the book you used in 100B or its equivalent. Readings in Blanchard, Macroeconomics, and in Jones, Macroeconomics, are listed on the reading list. You do not need to read both, but you may wish to read parts of the one you did not use in 100B. All other readings will be available on the web linked to the course webpage.

Readings marked with a * are recommended, optional readings. Other readings are required but only specific parts of longer articles will be assigned in lecture.

Evaluation:

There will be two midterm exams and a final exam. Homework assignments will familiarize you with the exam questions. Tentative dates for in-class midterms: Midterm 1: Thursday April 21, Midterm 2: Thursday May 19. The final exam is scheduled for Monday, June 6, 8-11 am.

Locations:

Webpage: <http://people.ucsc.edu/~kkletzer/105sp11.ntm>

Office Hours - Mondays 3:30-4:30 and Fridays 10-11, or by appointment, in 461 E2.
Email - kkletzer@ucsc.edu

Readings and Preliminary Lecture Schedule

1. Macroeconomics Review (and extension) (1st week)

Blanchard, Chapters 7-9 and 14 and 17, or Jones, Chapters 9-12
Jones, Chapters 3-6, or Blanchard, Chapters 11-13.

2. Stabilization Policy (2nd week)

David Romer, "Keynesian Macroeconomics without the LM Curve," *The Journal of Economic Perspectives*, 14 (2), Spring 2000, pp. 149-169.

Jeffrey Lacker and John, Weinberg, "Inflation and Unemployment: A Layperson's Guide to the Phillips Curve," Federal Reserve Bank of Richmond *Economic Quarterly*, 93(3), Summer 2007, pp. 201-227.

*Gadi Barlevy, "The cost of business cycles and the benefits of stabilization," Federal Reserve Bank of Chicago *Economic Perspectives*, 29(1), February 2005, pp. 32-49.

*Robert Barsky and Lutz Kilian, "Oil and the Macroeconomy Since the 1970s," *Journal of Economic Perspective* 18(4), Fall 2004, pp. 115-134.

3. How is Monetary Policy Made? (3rd week)

Jordi Galí and Mark Gertler, "Macroeconomic Modeling for Monetary Policy Evaluation," *Journal of Economic Perspectives*, 21(4), Fall 2007, pp. 25-45.

Robert Hetzel, "The Taylor Rule: Is It a Useful Guide to Understanding Monetary Policy?" Federal Reserve Bank of Richmond *Economic Quarterly*, 86(2), Spring 2000, pp. 1-33.

Carl Walsh, "Teaching Inflation Targeting: An Analysis for Intermediate Macro," *Journal of Economic Education*, 33 (4), Fall 2002, pp. 333-347.

4. Monetary Policy before the Crisis (4th week)

Marvin Goodfriend, "How the World Achieved Consensus on Monetary Policy," *Journal of Economic Perspectives*, 21(4), Fall 2007, pp. 47-68.

Ben S. Bernanke, "What Have We Learned Since October 1979?", Federal Reserve Bank of St Louis *Review*, March/April 2005, 87 (2, part 2), pp. 277-282.

Allan Meltzer, "Origins of the Great Inflation," Federal Reserve Bank of St Louis *Review*, March/April 2005, 87 (2, part 2), pp. 145-176.

Christina Romer, "Commentary [on Meltzer]," Federal Reserve Bank of St Louis *Review*, March/April 2005, 87 (2, part 2), pp. 177-185.

*Peter Summers, "What Caused the Great Moderation: Some Cross-Country Evidence" Federal Reserve of Kansas City *Economic Review*, 3rd Quarter 2005, pp. 5-32.

5. Financial Markets in the Macroeconomy (5th week)

Blanchard, Chapters 15, Jones, Chapter 13

Douglas Diamond, "Banks and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model," Federal Reserve Bank of Richmond *Economic Quarterly*, 93(2), Spring 2007, pp. 189–200.

Michael Woodford, "Financial Intermediation and Macroeconomic Analysis," *Journal of Economic Perspectives*, 24(4), Fall 2010, pp. 21–44.

6. The Financial Crisis (5th – 6th week)

Jones, Chapter 14

Frederic S. Mishkin, "Over the Cliff: From the Subprime to the Global Financial Crisis," *Journal of Economic Perspectives*, 25(1), Winter 2011, pp. 49–70.

Robert E. Hall, "Why Does the Economy Fall to Pieces after a Financial Crisis?," *Journal of Economic Perspectives*, 24(4), Fall 2010, pp. 3–20.

Vincent Reinhart, "A Year of Living Dangerously: The Management of the Financial Crisis in 2008," *Journal of Economic Perspectives*, 25(1), Winter 2011, pp. 71–90.

*Lee E. Ohanian, "The Economic Crisis from a Neoclassical Perspective," *Journal of Economic Perspectives*, 24(4), Fall 2010, pp. 45–66.

7. A Quick Look at the Past (6th week)

Christina Romer, "The Nation in Depression," *Journal of Economic Perspectives*, 7(2), Spring 1993, pp. 19–39.

*Christina Romer, "What Ended the Great Depression?" *Journal of Economic History*, 52, December 1992, pp. 757–784.

8. Monetary Policy at the Zero Lower Bound (7th week)

* Blanchard, Chapter 22

Paul Krugman, "It's Baaack: Japan's Slump and the Return of the Liquidity Trap," *Brookings Papers on Economic Activity*, 2:1998, pages 137–166 only.

Lars E.O. Svensson, "Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others," *Journal of Economic Perspectives*, 17(4), Fall 2003, pp. 145–166.

Ricard Reis, "Interpreting the Unconventional U.S. Monetary Policy of 2007–09," *Brookings Papers on Economic Activity*, Fall 2009, pages 119–129 only.

9. Does Fiscal Policy Help in a Recession? (8th week)

Alan J. Auerbach, William G. Gale, and Benjamin H. Harris, "Activist Fiscal Policy," *Journal of Economic Perspectives*, 24(4), Fall 2010, pp. 141–164.

Robert E. Hall, "By How Much Does GDP Rise If the Government Buys More Output?" *Brookings Papers on Economic Activity* (Fall 2009), pages 183-195 only.

*John Taylor, "The Lack of an Empirical Rationale for a Revival of Discretionary Fiscal Policy," *American Economic Review: Papers and Proceedings* 99, May 2009, pp. 550-555.

Antonio Spilimbergo, Steven Symansky, Olivier Blanchard, and Carlo Cottarellu, "Fiscal Policy for the Crisis." <http://www.voxeu.org/index.php?q=node/3055>

* Christian Broda and Jonathan Parker, "The Impact of the 2008 Tax Rebate." <http://www.voxeu.org/index.php?q=node/1541>

10. The Labor Market in the Recession (9th week)

Davis, Steven J., R. Jason Faberman, and John Haltiwanger. "The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links." *The Journal of Economic Perspectives*. 20 (3), Summer 2006, pp. 3-26.

Elsby, Michael, Bart Hobijn, and Aysegul Sahin. "The Labor Market in the Great Recession." *Brookings Panel on Economic Activity*, March 2010, pages 1-29 only.

11. Public Debt and Taxes (9th week)

Blanchard, Chapter 26 or Jones, Chapter 15

Economic Report of the President, 2010, Chapter 5, "Addressing the Long-Run Fiscal Challenge," pp. 137-157 (Washington, DC: Government Printing Office, 2010).

*N. Gregory Mankiw, Matthew Weinzierl, and Danny Yagan. "Optimal Taxation in Theory and Practice." *The Journal of Economic Perspectives*. 23(4), Fall 2009, pp. 147-174.

*Thomas Piketty and Emmanuel Saez, "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective," *Journal of Economic Perspectives*, 21(1), Winter 2007, pp. 3–24.

12. Open Economy Policy Issues (10th week)

* Blanchard, Chapters 18-21 or Jones 16-17

Economic Report of the President, 2011, Chapter 5, "World Economy," pp. 81-110 (Washington, DC: Government Printing Office, 2011)

Ben S. Bernanke, "Global Imbalances: Recent Developments and Responses," Bundesbank Lecture, September 2007.

* Charles Wyplosz, "European Monetary Union: the dark sides of a major success," *Economic Policy*, 21(46), April 2006, pp. 207-261. (selected pages only)