

## 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 global financial crisis, monetary policy in and out of the zero lower bound, the effectiveness of fiscal stimulus and the causes of the Great Recession.

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.

### Readings:

The readings will be available on the web linked to the course webpage:

<http://people.ucsc.edu/~kkletzer/105sp15.htm>

You may also need an intermediate macroeconomics text for background, although this is not required.

### Evaluation:

There will be several written assignments on the readings (40%), a midterm (20%) and a final exam (40%).

The tentative date for the midterm is Thursday May 7.

The final exam is scheduled for Thursday, June 11, 8-11am.

Course webpage: <http://people.ucsc.edu/~kkletzer/105sp15.htm>

Office Hours – Mondays 11-12 and Tuesdays 1-2, or by appointment, in 461 E2.

Email - [kkletzer@ucsc.edu](mailto:kkletzer@ucsc.edu)

## Readings and Schedule

### 1. Macroeconomics Review (and extension)

Lacker, Jeffrey 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.

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

\* Blanchard, *Macroeconomics* (6<sup>th</sup> Edition) Chapters 5-8, 14 and 17; or Abel and Bernanke, *Macroeconomics* (8<sup>th</sup> Edition), Chapters 9, 11-12; or Jones, *Macroeconomics* (2<sup>nd</sup> or 3<sup>rd</sup> Edition), Chapters 11-14.

### 2. Stabilization and Shocks

Lucas, R. E. "Macroeconomic Priorities," *The American Economic Review*, 93(1), 2003, pp.1-14.

\*Barlevy, Gadi, "The Cost of Business Cycles under Endogenous Growth," *The American Economic Review*, 94(4), 2004, pp. 964-990.

Chapter 5, Romer, David, *Advanced Macroeconomics*, 4<sup>th</sup> Edition, McGraw-Hill, 2011.

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

\* Blinder, Alan S. and Jeremy B. Rudd, "The Supply-Shock Explanation of the Great Stagflation Revisited," in Bordo, M. D., & Orphanides, A. (Eds.). *The Great Inflation: The rebirth of modern central banking*. University of Chicago Press, 2013.

### 3. Extending the AS/AD model

Chapter 6 (sections 6.1-6.4), Romer, David, *Advanced Macroeconomics*, 4<sup>th</sup> Edition, McGraw-Hill, 2011.

Gali', Jordi 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.

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

#### 4. The Great Inflation and the Great Moderation

Levin, Andrew and John B. Taylor, "Falling Behind the Curve: A Positive Analysis of Stop-Start Monetary Policies and the Great Inflation," in Bordo, M. D., & Orphanides, A. (Eds.). *The Great Inflation: The rebirth of modern central banking*. University of Chicago Press, 2013.

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

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

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

#### 5. Bubbles and Bank Runs

Barlevy, Gadi, "Economic Theory and Asset Bubbles," *Federal Reserve bank of Chicago Economic Perspectives*, 3Q 2007, pp. 44-59.

Diamond, Douglas, "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.

#### 6. Some Historical Background on Financial Crises

Reinhart, Carmen and Kenneth Rogoff, "Is the 2007 US Sub-Prime Financial Crisis So Different? An International Historical Comparison," *American Economic Review* 98, May 2008, pp. 339-344.

Reinhart, Carmen and Kenneth Rogoff, "The Aftermath of Financial Crises," *American Economic Review* 99, May 2009, pp. 466-472.

Bernanke, Ben S. "The Crisis as a Classic Financial Panic", Speech, Board of Governors of the Federal Reserve System, November 8, 2013.

\* Reinhart, Carmen and Kenneth Rogoff, "This Time is Different: A Panoramic View of Eight Centuries of Financial Crises," NBER Working Paper 13882, March 2008.

#### 7. The Financial Crisis of 2007-08

Brunnermeier, Markus K., "Deciphering the liquidity and credit crunch 2007-2008," *Journal of Economic Perspectives*, 23(1) 2009: pp. 77-100.

Gorton, Gary, "Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007," Federal Reserve Bank of Atlanta, Financial Markets Conference: Financial Innovation and Crisis, May 11-13, 2009.

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.

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

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

\* Shin, Hyun Song, "Reflections on Northern Rock: the Bank Run that Heralded the Global Financial Crisis," *Journal of Economic Perspectives*, 23(1), Winter 2009, pp.101-119.

\* Stulz Rene M., "Credit Default Swaps and the Credit Crisis," *Journal of Economic Perspectives*, 23(1), Winter 2010, pp. 73-92.

## 8. The Start of the Great Recession

Bean, Charles. "Joseph Schumpeter Lecture the Great Moderation, the Great Panic, and the Great Contraction." *Journal of the European Economic Association*, 8(2-3) 2010, pp. 289-325.

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.

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

## 9. Monetary Policy at the Zero Lower Bound

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

Joyce, Michael, et al. "Quantitative Easing and Unconventional Monetary Policy—an Introduction," *The Economic Journal* 122 (564) 2012, pp. F271-F288.

Cassidy, John, "All You Ever (or Never) Wanted to Know About Quantitative Easing," *The New Yorker*, January 22, 2015

Woodford, Michael, "Forward Guidance for Monetary Policy: Is It Still Possible?"  
Voxeu, January 17, 2008.

#### 10. Fiscal Policy

DeLong, J. Bradford, Lawrence H. Summers, "Fiscal policy in a depressed economy,"  
*Brookings Papers on Economic Activity* (Spring 2012), pp. 233-297.

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

Romer, Christina D., and David H. Romer, "The Macroeconomic Effects of Tax  
Changes: Estimates Based on a New Measure of Fiscal Shocks," *American Economic  
Review* 100, 2010, pp. 763-801.

#### 11. A Look at the Past

Eichengreen, Barry, *Golden Fetters: The Gold Standard and the Great  
Depression, 1919-1939*, Oxford University Press, 1992, Chapter 1, "Introduction," pp. 3-  
28.

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.

#### 12. Labor Markets in Recession

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 Aysegül Sahin. "The Labor Market in the Great  
Recession." Brookings Panel on Economic Activity, Spring 2010, pp. 1-29 only.