

Macroeconomics 7007
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This is the first course in the graduate macroeconomics sequence. It surveys the formal models that are invoked in the contemporary debates of macroeconomic policy; including classical, Keynesian, new classical and new Keynesian theories.

Macroeconomics as a field of study was motivated by an empirical fact, the Great Depression. Likewise, this course begins with a survey of the stylized facts of short-term, economy-wide instability. Nevertheless, much of the semester is devoted to the analysis of formal models at a theoretical level. Particular attention is given to the search, not for empirical explanation, but for coherence with microeconomics theory.

Wendy Carlin and David Soskice, **Macroeconomics: Imperfections, Institutions and Policies** has been ordered at the bookstore.

The grading scheme is:

- homework assignments 20%,
- midterm examination, October 6th 2:00-3:30 35%,
- final examination, December 12th 1:00-3:00 45%.

Late assignments lose points and the exams must be taken at the scheduled times. Incompletes are not generally given for nonmedical reasons.

Topic Outline and Reading List

1. Introduction

Claus Offe, "Competitive Party Democracy and the Keynesian Welfare State: Factors of Stability and Disorganization," **Policy Sciences** 15 (1983): 225-246.

Kiefer, David, **Macroeconomic Policy and Public Choice**, Springer-Verlag, 1999, chapter 1.

Brian Snowdon and Howard R. Vane, **The Development of Modern Macroeconomics: a rough guide**. 1997.

2. The Classical Model

Keynes, John Maynard, **The General Theory of Employment, Interest and Money**, 1936, chapters 2-3.

Thomas Sargent, **Macroeconomic Theory**, 2nd edition 1987, chapter 1.

Kiefer, chapter 4.1-4.2.

Alpha C. Chiang, **Fundamental Methods of Mathematical Economics**, chapter 8.

Carlin and Soskice, chapter 2.

3. The Keynesian Model

Keynes, chapter 18.

David Romer, **Advanced Macroeconomics**, chapter 5

Sargent, chapter 2.

Bill Gerrard, "Keynes's General Theory: Interpreting the interpretations," **Economic Journal** 1991.

Alan S. Blinder, "The fall and rise of Keynesian Economics," **Economic Record** 1988.

4. The Quest for Microfoundations: Nonclearing Markets

Brunner, Karl and Meckling, William H., "The Perception of Man and the Conception of Government," **Journal of Money Credit and Banking** 9, 1977.

Kiefer, chapters 2 and 4.

Carlin and Soskice, chapter 15.

5. The Phillips Curve and Natural Rate Hypothesis

Friedman, Milton, "The Role of Monetary Policy," *American Economic Review* 58 (March, 1968): 1-17,

Snowdon and Vane, part 2, readings 7.

Kiefer, chapter 5.1-5.5.

Joseph Stiglitz, "Reflections on the Natural Rate Hypothesis," **Journal of Economic Perspectives** 11, 1997: 3-10.

James K. Galbraith, "Time to Ditch the NAIRU," **Journal of Economic Perspectives** 11, 1997: 93-108.

Carlin and Soskice, chapter 3 and 4.

6. New Classical School and Rational Expectations

David Romer, chapter 6, part A

Kiefer, chapters 5 and 6.

Sargent, Thomas J. and Wallace, Neil, "Rational Expectations and the Theory of Economic Policy," **Journal of Monetary Economics** 2 (1976): 169-183.

Robert E. Lucas and Thomas J. Sargent, "After Keynesian Macroeconomics," 1978.

David Laidler, "The new-classical contribution to macroeconomics," **Banca Nazionale Del Lavoro Quarterly Review**, 1986

7. The New Keynesian School

David Romer, chapter 6, parts B and C

Kiefer, chapter 9.

N. Gregory Mankiw, "The reincarnation of Keynesian Economics," **European Economic Review** 1992).

Brian Snowdon and Howard Vane "New-Keynesian economics today: The empire strikes back," **American Economist**, 1995.

Bruce Greenwald and Joseph Stiglitz, "New and old Keynesians," *Journal of Economic Perspectives*, 1993.

8. Endogenous Policy

Barro, Robert J. and Gordon, David, "Rules, Discretion and Reputation in a Model of Monetary Policy," **Journal of Monetary Economics** (July, 1983): 101-122.

Fischer, Stanley, "Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule," **Journal of Political Economy** 85 (February, 1977): 191-206.

Kiefer, chapter 9.

Carlin and Soskice, chapters 5 and 6.

9. The Political Business Cycle

Alesina, Alberto and Sachs, Jeffrey, "Political Parties and the Business Cycle in the United States, 1948-1984," **Journal of Money, Credit and Banking** 20 (February, 1988): 63-81.

Kalecki, M., "Political Aspects of Full Employment," **Political Quarterly** 4 (1943): 322-331.

Kiefer, chapters 10 and 11.

Kiefer, D., "Partisan Stabilization Policy and Voter Control," **Public Choice** 122: 115-132, 2005.

Nordhaus, William D., "Political Business Cycle," **Review of Economics Studies** (April, 1975): 169-190.

Carlin and Soskice, chapter 16.

10. Review and conclusion