

Macroeconomics-6: Macroeconomic Policy

New Economic School, Module 1, Fall 2017

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Course information

Course Website: my.nes.ru

Instructor's Office Hours: By appointment. I'll be on campus, Tuesdays, Thursdays, and Fridays.

Class Time: Tues., 10:00-11:30, Thurs. 15:30-17:00

TA: Sergei Golovan

TA Sections: Thursday, 17:15-18:45

Course Description

Much of the developed world, including Japan, the United States, and Europe, now appear to be mired in a slow-growth quagmire. Central bankers have not yet found out how to respond to this "secular stagnation", as developed world policymakers continue to struggle to design policies allowing their economies to exit the liquidity trap. In this course, the sixth and final part of the required macroeconomic sequence at NES, we will focus on stabilization policy, debating the causes of the financial crisis and the so-called "Lesser Depression" in the historical context of the Great Depression, the event that gave rise to the field of Macroeconomics.

Keynes' description of the requirements of becoming a master economist were that "[she] must be mathematician, historian, statesman, philosopher..." With that lofty ideal in mind, this course aims to arm students with practical knowledge on how to conduct stabilization policy, with mathematical tools necessary to read and participate in the academic debate on policy, and with knowledge of the history of stabilization policy and the historical context in which the field of Macroeconomics was created. This class also aims to develop students' skills analyzing data, coding, and to refine students' writing and debating skills.

Course Requirements, Grading, and Attendance Policies

The course will consist of one test, one short writing assignment (due in week 6, and graded by me), two problem sets (likely, one using data/Stata, and one theoretical assignment, both graded by the TA). The course grade will be determined 75% from the final, 10% for the problem sets, and 15% for the writing assignment. In addition, there will be at least one opportunity for bonus points, typically amounting to 1% of your total grade. If an exam or a significant part of the assignments are missed for any reason, then a student will have to take the retake exam. Questions on the exams will be split roughly evenly between short answer questions covering topics from lecture and the starred readings, and in solving problems. It is expected that students attend class having read the materials assigned for that class, and that students participate in the class discussion. If a student needs to miss one of the exams due to an emergency, this emergency needs to be documented (if possible, prior to the exam), and then the student can take the makeup exam in place of the final. However, expect the makeup exam to be more difficult and graded more stringently, and may cover additional articles. Note that the slides in general will not be sufficient to prepare for the exams, so that coming to class is strongly recommended to prepare for the exams. Even so, I realize that some students also work (I would strongly advise against this), and so if you miss class for work it is best to discuss this with me early in the course and some allowances can be made.

Writing Assignment

Ph.D. programs (in any subject) and virtually any English-language workplace (e.g., consulting) will require you to do a enormous amount of writing. Writing well in English is a highly marketable skill. In addition, I tend to find that NES students already have very good math skills, but sometimes still need work developing their English-language writing skills, and also need practice on making verbal analytical arguments. For this reason, one of my goals for you in this class is to develop your writing skills (although the requirements for this course have been greatly reduced from years past). In addition, economists are known as “format nazis”, and so I require that your essays be done in latex (if you do in word instead, you’ll be penalized one point out of ten, but you are strongly encouraged to learn latex). Learning latex at first is a pain, but documents do look much better. If you have never used latex, please see Sergei Golovan, who will also provide a sample document template. Also feel free to ask me questions as well if you are having trouble making your latex compile. Late work will be penalized .5 points for being late by 0-4 hours, 1 point for 4-24 hours, 2 points for 1-3 days, and then 3 points thereafter (note that the median score on these is usually around 4-5). If very late, and the reading has been discussed in class, then a makeup writing assignment can be made. It is definitely in your interest to turn in an assignment late rather than not do it at all. Not turning in the writing assignment can be grounds for failure of the

course. Another piece of advice is that you are allowed to show me your essay and get feedback, or discuss issues with me before you submit your paper, and you are strongly encouraged to visit the writing center to edit your writing assignments. Finally, you are allowed to discuss assignments with your classmates (there would be no way for me to prevent this in any case), but you must write up your own essay. Note that I tend to give novel or unique arguments more points, so that if you think of a good argument, it's best to keep it to yourself. Essays that look very similar will receive dramatically lower points. On a typical writing assignment, there are a very wide array of things you could discuss, and so if you don't make any original points, you can expect a lower grade.

Bonus Point Opportunities

There may be several opportunities for bonus points throughout the semester. The first of these opportunities is to do your C.V. in latex. I'll provide my template on the course webpage which you can just edit to make this as easy as possible.

Course Contents

Introduction to the Great Recession and to the Intellectual History of Macro (1-2 lectures)

I. The Great Depression (2-3 lectures)

A. Introduction to the Great Depression

B. The Gold Standard and the Trilemma

C. More on the Great Depression; Banking

II. Bretton Woods Period

A. Bretton Woods I and Exchange Rate Policy

B. Wage Determination and Sticky Prices

C. Identifying Monetary Policy Shocks

III. Segue to the Great Recession

A. Financial Crises

B. Bretton Woods II

C. Japan

III. The Great Recession

A. Monetary Policy Debate in a Liquidity Trap I

B. Monetary Policy Debate in a Liquidity Trap II

C. The Fiscal Policy Debate

D. More on Fiscal Policy

- E. The Euro Crisis
- F. The Secular Stagnation Debate
- G. Кризис наш: The Ruble Crisis

Course Materials

This course is based more on articles than particular textbooks. The required readings contain *stars and the suggested readings do not. The non-starred readings are there to give those who are interested in the subject more references, or for those who may want to write their theses on the subject, but they are not required readings for the exams. There include a small bit of reading from the chapters from the book we used throughout macroeconomics 3-5 (below). Slides will be available at my.nes, as well as papers. Note that I will solve some models on the blackboard and will extensively use slides when we discuss empirical evidence. Lastly, this syllabus is subject to extensive changes as the course goes along.

0. Course Introduction and the Intellectual History of Macroeconomics

*Krugman, Paul, [How Did Economists Get it So Wrong?](#) ; *Mulligan, Casey, [Who Cares About Federal Funds?](#) ; *Caplan, Bryan, [Econmath Fails the Cost-Benefit Test](#) ; *Clark, Gregory [Dismal Scientists: How the Crash is Reshaping Economics](#) ; *Cochrane, John, [What if We Got the Wrong Sign on Monetary Policy?](#),

Krugman, [The Profession and the Crisis](#); Caplan, Bryan, [The Decline of Economic Theory](#)

I. The Great Depression (3-4 lectures)

A. Intro to the Great Depression

*Paul Krugman, ["Introduction" to John Maynard Keynes, The General Theory of Employment, Interest and Money](#) ;

*Eichengreen, B. (1995), "Golden Fetters" (Only the short introduction is required; see course webpage)
Eichengreen, B., [Still Unfettered After all These Years](#) ; *Bernanke, Ben and Harold James, [The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison](#)

*Paul Krugman, [Babysitting the Economy](#)

Eichengreen, B. (1992), "The Origins and Nature of the Great Slump Revisited." *Economic History Review* 459(2), 212-239; Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States 1867 to 1960*. Princeton: Princeton University Press, Chapter 7.

B. More on the Great Depression, Gold Standard and the Trilemma, Theory

*Greg Mankiw [“2008 = 1929?”](#) (notes on deflation in an IS-LM framework)

*Paul Krugman, [There’s Something About Macro](#)

*Paul Krugman, [The World’s Smallest Macro Model](#)

*[Notes on Open-Economy IS-LM](#)

Romer, Christina, [The Great Crash and the Onset of the Great Depression](#) ; McCloskey, D. N., and J. R. Zecher. “How the Gold Standard Worked, 1880-1913.” In *The Gold Standard in Theory and History*, edited by B. Eichengreen. New York: Methuen, 1985.

C. More on the Great Depression; Banking

*Rajan, Raghuram, and Rodney Ramcharan, (2014), ["Financial Fire Sales: Evidence from Bank Failures"](#)

*Ohanian, ["What – or Who – Started the Great Depression?"](#) (Journal of Economic Theory, 2009)

II. Bretton Woods and the Great Moderation

A. Bretton Woods I and Exchange Rate Policy, (short section)

*Jay C. Shambaugh, 2004. "The Effect of Fixed Exchange Rates on Monetary Policy," *The Quarterly Journal of Economics*, MIT Press, vol. 119(1), pages 300-351, February.

Monnet, Eric ["Monetary Policy Without Interest Rates"](#).

B. Identifying Monetary Policy Shocks

*Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans, ["Monetary Policy Shocks: What Have We Learned and To What End?"](#) in J.B. Taylor and M. Woodford, eds., *Handbook of Macroeconomics*, vol. 1A, Elsevier, 1999.

*Andersen, Bollerslev, Diebold, Vega, [“Real-Time Price Discovery in Stock, Bond and Foreign Exchange Markets”](#)

Velde (2007) ["Chronicle of a Deflation Unforetold"](#)

C. Wage Determination and Sticky Prices

*Bryan Caplan channeling Truman Bewley, ["Why Wages Don’t Fall During a Recession? Q&A with Me Channeling Truman Bewley."](#); *Krugman, Paul ["The Triumph of Backward Looking Economics"](#); *Krugman, Paul ["On the Neo-Paleo-Keynesian Phillips Curve"](#); *Krugman, Paul ["More Paleo-Keynesianism"](#)

(Slightly Wonkish)"

Mankiw, N. Gregory and Lawrence Ball, "A Sticky Price Manifesto".

*Caplan, Bryan, "[A Challenge for Anti-Keynesians](#)"

*Krugman, "[The Triumph of Backward-Looking Economics](#)"

Roberts, John M., "New Keynesian Economics and the Phillips Curve," Journal of Money, Credit, and Banking 27(4), November 1995, Part 1, pp. 975-84.

D. Inflation Targeting, Price-Level Targeting, vs. Nominal GDP Targeting

*Michael Hatcher and Patrick Minford, "[Inflation Targeting vs. Price-Level Targeting: A New Survey of Theory and Empirics](#)" (Just read the first half, up to the section "The Importance of Rational Expectations"); Svensson, Lars, "Price Level Targeting vs. Inflation Targeting: A Free Lunch?" No. w5719. National bureau of economic research, 1996.

Giannoni, Marc and Michael Woodford, "[Optimal Inflation-Targeting Rules](#)" in Bernanke and Woodford, eds., The Inflation-Targeting Debate, 2004, pp. 93-114.

III. Segue to the Great Recession

A. Financial Crises: Asian Financial Crisis

*Krugman, Paul, [Analytical Afterthoughts on the Asian Crisis](#) ; *Krugman, Paul, Nobel Lecture

*Stiglitz, Joseph, Globalization and Its Discontents, Chapter 4 "The East Asian Crisis: How IMF Policies Brought the World to the Verge of a Global Meltdown", (see my.nes).

*DeLong, Brad [A Review of Paul Krugman, The Return of Depression Economics](#) Rogoff, Kenneth, [An Open Letter to Joseph Stiglitz](#) *Rogoff, Kenneth, [The IMF Strikes Back](#)

Paul Blustein, "The Chastening"

B. Кризис наш: The Ruble Crisis (briefly)

*Paul Krugman [Notes on Russian Debt](#) *Paul Krugman [Russia 2015 Venezuela 1983](#) Stiglitz, Joseph, Globalization and Its Discontents, Chapter 5 "Who Lost Russia?", (see my.nes).

C. Bretton Woods II and the Rise of China

*Dooley, M., D. Folkerts-Landau and P. Garber, "An Essay on the Revived Bretton Woods System," Proceedings (2005); Dooley, M., D. Folkerts-Landau and P. Garber, "Savings Gluts and Interest Rates: The Missing Link to Europe." Dooley, M., D. Folkerts-Landau and P. Garber, "The Revived Bretton Woods System: The Effects of Periphery Intervention and Reserve Management on Interest Rates in Center Countries," NBER Working Papers 10332, March 2004;

*Autor, Dorn, Hanson, "[The China Syndrome](#)"

D. Japan

*Krugman, Paul, 1998, "It's Back – Japan's Slump and the Return of the Liquidity Trap," Brookings Papers on Economic Activity. (Only need to read 137-151 & the "Banking Problems" section from p. 174-177. The discussion at the end featuring many other prominent economists is recommended but not required). Obstfeld, Maurice, 2009, "[Time of Troubles: The Yen and Japan's Economy 1985-2008](#)"

Bernanke, Ben S. "Japanese Monetary Policy: A Case of Self-Induced Paralysis?" Japan's Financial Crisis and Its Parallels to US Experience (2000): 149-166.

*Caballero, Ricardo J., Takeo Hoshi, and Anil K. Kashyap. "Zombie lending and depressed restructuring in Japan". No. w12129. National Bureau of Economic Research, 2006. (Just read abstract and introduction)

III. The Great Recession

A. Monetary Policy Debate in a Liquidity Trap I

*NY Times Article on Kocherlakota, "[A Fed Policy Maker, Changing His Mind, Urges More Stimulus](#)" Clarida, Richard, Jordi Gali and Mark Gertler, "The Science of Monetary Policy: A New Keynesian Perspective," Journal of Economic Literature 37, December 1999, pp. 1661-707. Sections 5-7.

Woodford, Michael, "Pitfalls of Forward-Looking Monetary Policy," The American Economic Review, 90 (2), May, 2000, pp. 100-104. ; Woodford, Michael, "The Taylor Rule and Optimal Monetary Policy," The American Economic Review, 91 (2), May, 2001, pp. 232-237.

B. Monetary Policy Debate in a Liquidity Trap II

*David Keohane, [Negative Rates and Gesell Taxes: How Low Are We Talking Here](#)

Pozsar, Adrian, Ashcraft, Poesky "[Shadow Banking](#)"

Lars E.O. Svensson, 2003. "Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others," *Journal of Economic Perspectives*, American Economic Association, vol. 17(4), pages 145-166, Fall. Eggertsson, Gauti B. and Michael Woodford. "The Zero Bound On Interest Rates And Optimal Monetary Policy," *Brookings Papers on Economic Activity* 34, 2003-1 (2003): 139-235.

C. The Fiscal Policy Debate

*Delong, Brad, ["Matt Yglesias vs. Robert Barro"](#) ; Barro, Robert, ["How to Really Save the Economy"](#) ; *Mulligan, Casey, ["Are Employers Unwilling to Hire, or Are Some Workers Unwilling to Work?"](#) ; *Krugman, Paul, [A Dark Age of Macroeconomics](#) (also read links) ; *Krugman, Paul, [A Note on the Ricardian Equivalence Argument Against Stimulus](#) ; Goldfarb, Zachary, ["Geithner Finds His Footing"](#); [Cato letter to Obama.](#) ;

D. More on Fiscal Policy

*Gujardo, Jaime, Daniel Leigh, and Andrea Pescatori. *Expansionary Austerity: New International Evidence.* *Journal of the European Economic Association*, 2014.

Nakamura, Emi, and Jon Steinsson. *Fiscal stimulus in a monetary union: Evidence from US regions.* No. w17391. National Bureau of Economic Research, 2011.

Sargent, Thomas, and Neil Wallace "Some Unpleasant Monetarist Arithmetic," *Federal Reserve Bank of Minneapolis Quarterly Review* 5, Fall 1981, pp.1-17.

*Krugman, Paul, [Optimal Fiscal Policy in a Liquidity Trap](#) (course webpage)

E. The Euro Crisis

O'Rourke, Kevin and Alan M. Taylor, 2013, ["Cross of Euros"](#) ; Svensson, Lars ["Leaning Against Household Debt: The Swedish Experience"](#) ;

F. The Secular Stagnation Debate

Campbell, Douglas L. ["Relative Prices, Hysteresis, and the Decline of American Manufacturing"](#)

*Campbell, Douglas L. [Guest Contribution: "The Cause of Secular Stagnation? Relative Prices, Trade, and the People's Republic of China"](#) ; *Ben Bernanke, blog post, ["Why are interest rates so low, Part 2: Secular Stagnation"](#)

*Ben Bernanke, blog post, ["Why are interest rates so low, Part 3: The Global Savings Glut"](#)

*Paul Krugman, ["Liquidity Traps: Local and Global"](#)

Campbell, Douglas L. ["On the Causes of Secular Stagnation: China, Relative Prices, and the Collapse"](#)

of Manufacturing” ; Acemoglu et al. (2014) “Import Competition and the Great Employment Sag of the 2000s” ; VoxEU Ebook, “Secular stagnation: Facts, causes, and cures”

Required Textbooks and Materials

There is no required textbook. This classed is based around articles.

Recommended acro Blogs

<http://blogs.cfr.org/setser/> <http://krugman.blogs.nytimes.com/>

<http://economistsview.typepad.com/timduy/>

<http://gregmankiw.blogspot.ru/>

<http://johnhcochrane.blogspot.ru/>

<http://www.vox.com/authors/matthew-yglesias>

<http://www.economist.com/blogs/freeexchange>

<http://blogs.ft.com/martin-wolf-exchange/>

Recommended Economic Journalists

David Leonhardt, Zachary Goldfarb, Martin Wolf

Academic Integrity Policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.