

Econ 797N: Behavioral and structuralist macro models

Fall 2011

MW 11:15pm - 12:30pm in Thompson 620

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The aim of this course is to provide an introduction to formal macroeconomic models within a broadly behavioral and structuralist tradition, incl. Keynesian and neo-Marxian theories. Thus, the course complements Econ 705 on "mainstream" macroeconomic theory and Econ 706 with its broader analysis of issues relating to Keynes's theory and methodology.

Course requirements: weekly problem sets, a midterm and a final exam, and participation in class discussions of the readings.

Preliminary course outline and readings:

1. *Introduction* (1-2 weeks)

Readings:

Akerlof, G.A. (2002) "Behavioral macroeconomics and macroeconomic behavior". *American Economic Review*, 411-433.

Akerlof, G.A. (2007) "The Missing Motivation in Macroeconomics". *American Economic Review*, 5-36.

Dutt, A.K. and Skott, P. (2006) "Keynesian Theory and the AD-AS Framework: A Reconsideration". In C. Chiarella, P. Flaschel, R. Franke and W. Semmler (eds) *Quantitative and Empirical Analysis of Nonlinear Dynamic Macromodels*, Elsevier, 2006, pp. 149-172.

Kirman, A.P. (1992) "Whom or what does the representative individual represent?" *Journal of Economic Perspectives*, Vol 6, 117-136

Lucas, R. E. Jr. (1976). "Econometric Policy Evaluation: A Critique," in *The Phillips Curve and the Labor Markets*, ed. K. Brunner and A. Melzer, Carnegie-Rochester Conference Series on Public Policy, 1: 19-46.

Rabin, M. (1998) "Psychology and Economics". *Journal of Economic Literature*, 11-46.

2. *The stability problem* (1 week)

Readings:

Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Macmillan, chapters 1-3 & 19.

Tobin (1975) "Keynesian model of recession and depression", *American Economic Review*, 195-202

Kalecki, M. (1935) "The mechanism of the business upswing". Reprinted in M. Kalecki (1971) *Selected essays on the dynamics of the capitalist economy*, Cambridge University Press.

3. *Full employment, the reserve army and the NAIRU* (3 weeks)

- a. Fragility of standard theory
- b. The reserve army
- c. Money illusion
- d. Hysteresis
- e. Institutional issues

Readings:

Akerlof, G.A. and Yellen, J.L. (1990) "The fair wage-effort hypothesis and unemployment". *Quarterly Journal of Economics*, 255-283.

Akerlof, G.A., Dickens, W.T. and Perry, G.L. (1996) "The macroeconomics of low inflation". *Brookings Papers on Economic Activity*, 1:1996, 1-75.

Howell, D.R., Baker, D., Glyn, A. and Schmitt, J. (2006) "Are Protective Labor Market Institutions at the Root of Unemployment? A Critical Review of the Evidence". Mimeo.

Kalecki, M (1943) "Political aspects of full employment". Reprinted in M. Kalecki, *Selected essays on the dynamics of the capitalist economy*, Cambridge: Cambridge University Press, 1971.

Lima, G.T. and Setterfield, M. (2008) "Inflation Targeting and Macroeconomic Stability in a Post Keynesian Economy". *Journal of Post Keynesian Economics*, 435-461.

Pollin, R. (1998) "The 'reserve army of unemployed' and the natural rate of unemployment': can Marx, Kalecki, Friedman and Wall Street all be wrong?" *Review of Radical Political Economics*, 1-13.

Rowthorn, R. (1977) "Conflict, inflation and money". *Cambridge Journal of Economics*, 215-239.

- Shafir, E., Diamond, P. and Tversky, A. (1997) "Money illusion". *Quarterly Journal of Economics*, 341-374.
- Skott, P. (1997) "Stagflationary consequences of prudent monetary policy in a unionized economy". *Oxford Economic Papers*, 341-374.
- Skott, P. (1999) "Wage formation and the (non--) existence of the NAIRU". *Economic Issues* 4, 77-92.
- Skott, P. (2005) "Fairness as a source of hysteresis in employment and relative wages". *Journal of Economic Behavior and Organization*, 305-331.
- Solow, R.M. (1990) *The Labor Market as a Social Institution*. Blackwell

4. *Wage inequality, overeducation and power-biased technological change* (1-2 weeks)

Readings:

- Autor, D., Katz, L. and Kearney, M. (2008) "Trends in U.S. Wage Inequality: Revising the Revisionists". *Review of Economics and Statistics*, 90(2), pp. 300-323.
- Guy, F. and Skott, P. (2008) "Information and communications technologies, coordination and control, and the distribution of income". *Journal of Income Distribution*, 17, pp. 71-92.
- Skott, P. and Slonimczyk, F. (2010) "Employment and Distribution Effects of Changes in the Minimum Wage". Working Paper 2010-03, University of Massachusetts Amherst.

5. *Growth cycles and the long run* (3 weeks)

- a. stagnationist models
- b. growth cycles in Harrodian and classical models
- c. structural liquidity traps and policy in the long run

Readings:

- Dutt, A.K. (1984) "Stagnation, income distribution and monopoly power". *Cambridge Journal of Economics*, 8, pp. 25-40.
- Foley, D. and Michl, T. (2001) *Growth and distribution*. Harvard University Press, chapter 10.
- Goodwin, R.M. (1967) "A Growth Cycle". In C.H. Feinstein (ed.) *Socialism, Capitalism and Growth* (CUP).
- Kaldor, N. (1940) "A Model of the Trade Cycle". *Economic Journal* 50, pp.78-92.

- Marglin (1984) "Growth, distribution, and inflation: a centennial synthesis". *Cambridge Journal of Economics*, 115-144.
- Marglin, S. and Bhaduri, A. (1990) "Profit Squeeze and Keynesian Theory." In: S. Marglin and J. Schor (eds). *The Golden Age of Capitalism - Reinterpreting the Postwar Experience*. Oxford: Clarendon.
- Nakatani, T. and Skott, P. (2007) "Japanese growth and stagnation: A Keynesian perspective". *Structural Change and Economic Dynamics*, 306-332
- Samuelson, P.A. (1939) "A synthesis of the principle of acceleration and the multiplier". *Journal of Political Economy*, 786-797.
- Schlicht, E. (2006) "Public Debt as Private Wealth: Some Equilibrium Considerations". *Metroeconomica*, 494-520.
- Skott, P. (1989) "Effective Demand Class Struggle and Cyclical Growth", *International Economic Review*, 231-47.
- Skott, P. (2010) "Theoretical and empirical shortcomings of the Kaleckian investment function". *Metroeconomica*, forthcoming.
- Skott, P. and Zipperer, B. (2010) "An empirical evaluation of three post-Keynesian models". Mimeo.

6. Financialization and Minskian long waves (2 weeks)

Readings:

- Dutt, A.K. (1995) "Internal finance and monopoly power in capitalist economies: a reformulation of Steindl's growth model". *Metroeconomica*, 46:1, pp. 16-34.
- Dos Santos, C.H. (2005) "A stock-flow consistent general framework for formal Minskyan analyses of closed economies". *Journal of Post Keynesian Economics*,
- Epstein, G. (2001) "Financialization, Rentier Interests, and Central Bank Policy". PERI
- Foley, D. (1987) "Liquidity-profit rate cycles in a capitalist economy". *Journal of Economic Behavior and Organization*, 363-376.
- Lavoie, M. and Godley, W. (2001-2002) "Kaleckian growth models in a stock and flow monetary framework: a Kaldorian view". *Journal of Post Keynesian Economics*, 277-311.
- Ryoo, S. (2009) "Long waves and short cycles in a model of endogenous financial fragility". Working Paper 2009-03, University of Massachusetts Amherst. Forthcoming in *Journal of Economic Behavior and Organization*.
- Sethi, R. (1992) "Dynamics of Learning and the Financial Instability Hypothesis". *Journal of Economics*, pp. 39-70.

Skott (1994) "On the modeling of systemic financial fragility". In A.K. Dutt (ed.) *New directions in analytical political economy*, Elgar, 49-76.

Skott, P. and Ryoo, S. (2008) "Macroeconomic implications of financialization". *Cambridge Journal of Economics*, 2008, 32 (6), 827-862

Stockhammer, E. (2004) "Financialisation and the Slowdown of Accumulation". *Cambridge Journal of Economics*, 28, pp. 719-741.

Taylor, L. and O'Connell, S.A. (1985) "A Minsky Crisis". *Quarterly Journal of Economics*, 871-885.

7. *Uncertainty, "historical time", and the strengths and limitations of formal models*
(1 week)

Readings:

Crotty, J. (1994) "Are Keynesian Uncertainty and Macrotheory Incompatible? Conventional Decision-Making, Institutional Structure and Conditional Stability in Keynesian Macromodels." In G. Dymski and R. Pollin, eds. *New Perspectives in Monetary Macroeconomics*, (Univ. of Michigan Press: Ann Arbor, 1994), pp. 105-47.

Lawson, T. (2006) "The nature of heterodox economics". *Cambridge Journal of Economics*, 30, 483-505

Skott, P. (2005) "Equilibrium, Stability and Economic Growth". In B. Gibson (ed.) *Joan Robinson's Economics: A Centennial Celebration*, Edward Elgar, pp. 173-194.