University of Massachusetts, Amherst
Department of Economics

Macroeconomics Theory I (ECON 705)
Spring 2023

Lectures: Tuesday & Thursday 2:30-3:45pm
Venue: Gordon Hall Conference Room (3rd Floor)
Office hours: Tuesday & Thursday 1-2pm, Gordon Hall 318

Instructor: Léonce Ndikumana
Email: ndiku@umass.edu

Scope
This course is an introduction to macroeconomics at the Ph.D. level. The objectives of the course are: (1) to review the main theories developed in the macroeconomics literature; (2) to review the empirical evidence on these theories. The main themes covered are: Classical, New Classical, Keynesian, and New Keynesian macroeconomic models; long-run growth; microfoundations of nominal and real rigidities; consumption and investment theories and applications; monetary policy and fiscal policy. Further analysis of these and other topics is provided in subsequent courses, notably Econ 706, 797N and others.

> 'Secular stagnation' associated with persistent unemployment is not a disease that happens to a country: it is a consequence of policies that can be changed.
> (Stiglitz 2018).

Course level: Graduate
Number of credits: 3
Attendance to lectures: mandatory for credit-earning participants

Prerequisites
This course is open to graduate students in economics and resource economics. Graduate students from other disciplines require explicit instructor's permission to enroll in the course, based on demonstrated adequate background in economics and math.

Exams and Grading
The final grade is based on a midterm exam (35%), a final exam (35%), homework assignments (25%) [15% for the term paper; 10% for problem sets], and class attendance and participation (5%). Letter grades are issued based on the standard scale as presented in a table at the end of the syllabus.
Midterm exam date: TBD; Covers sections I-V
Final exam date: TBD
Term paper due date: May 19th by 11pm

Main Readings

1. Required books

- Romer, David (2019). *Advanced Macroeconomics*, 5th edition, New York: McGraw Hill.
- Snowdon, Brian and Howard R. Vane (2005). *Modern Macroeconomics. Its Origins, Development and Current State*. Northampton, MA: Edward Elgar

2. Other material[1]

- Sargent, T. J. (1987). *Macroeconomic Theory*, 2nd edition (2nd ed.). Academic Press.
- Articles and book chapters: A selected list is provided for each section.

Course Outline and Readings

Notes:

- The reading list will be updated as the course progresses.
- Key articles for each section will be posted on Moodle.
- In each section, some articles are marked with an asterisk *: these are required/strongly recommended articles to read for the section. Obviously all the listed articles are important and should be consulted.

I. Introduction

Core issues in macroeconomics
Methodology in macroeconomics
Major 'eras' in the evolution of macroeconomics theory

Readings:

Books:[2]

*Snowdon and Vane (2005), chapters 1, 2

*Colander, D., & Freedman, C. (2018). *Where Economics Went Wrong: Chicago's Abandonment of Classical Liberalism*. Princeton University Press. **Chapters 1-3**. Accessible as ebook through UMass Library: click here.

Krugman, P. R. (2000). *The Return of Depression Economics*. New York: WW Norton & Company.

Articles:

[1] Other good references include: Blanchard, O. J., Fischer, S. (1989). *Lectures on macroeconomics*. MIT press; Keen, Steve (2011). *Debunking Economics – Revised and Expanded Edition*. New York/London: Zed Books.

[2] For students interested in research in macroeconomics in the context of emerging developing countries: Agénor, P.-R., & Montiel, P. J. (2015). *Development Macroeconomics* (4th edition). Princeton University Press. Montiel, P. J. (2012). *Macroeconomics in Emerging Markets* (2nd edition). Cambridge University Press. Chami, R., Espinoza, R., & Montiel, P. (2021). *Macroeconomic Policy in Fragile States*. Oxford University Press.

*Blanchard, O. (2009). The state of macro. *Annual Review of Economics,* 1(1), 209–228.
*Chari, V. V., & Kehoe, P. J. (2006). Modern macroeconomics in practice: How theory is shaping policy. *Journal of Economic Perspectives*, 20(4), 3–28.
Johnson, M. (2020). Where economics went wrong: A review essay. *Journal of Economic Literature*, 58(3), 749–776.
*Solow, R. (2008). The state of macroeconomics. *Journal of Economic Perspectives*, 22(1), 243–246.
*Stiglitz, J. E. (2018). Where modern macroeconomics went wrong. *Oxford Review of Economic Policy*, 34(1–2), 70–106.

Lewis, H., & Lewis, H. (2009). *Where Keynes Went Wrong: And Why World Governments Keep Creating Inflation, Bubbles, and Busts*. Mount Jackson, Virginia: Axios Press
Pressman, S. (2021). Rethinking the theory of money, credit, and macroeconomics: a review essay of John Smithin, *Rethinking the Theory of Money, Credit, and Macroeconomics: A New Statement for the Twenty-First Century* (Lanham, MD: Lexington Books, 2018). *Journal of Post Keynesian Economics*, 44(2), 302-314.

II. Classical Macroeconomics

The labor market
The goods market: consumption, investment, government budget constraint
The assets market
The complete classical model

Key features and results:
Neutrality, dichotomy; Wealth effects; crowding out, tax (non)neutrality

Readings:
*Romer, chapter 2 (2.9).
*Sargent, T. J. (1987). *Macroeconomic Theory, 2nd edition* (2nd ed.). Academic Press, chapter 1.

III. Keynesian Macroeconomics

Setup and comparative statics

Complete Keynesian model
Keynesian ISLM model
Keynesian (vs. classical) AS-AD model

Key features and results:
Monetary (non)neutrality
Wealth and real balance effects and breakdown of classical dichotomy
Liquidity trap and wealth effects
Output-inflation trade-off – The Phillips curve

Readings:
*Romer, 3rd edition, chapter 5. (not in 5th edition!)
*Snowdon and Vane, chapter 3
*Sargent (1987), Chapter 2

*Blinder, Allan S. (1988). The Fall and Rise of Keynesian Economics, *Economic Record*, (December), pp. 278-294.
*Cogan, J. F., Cwik, T., Taylor, J. B., and Wieland, V. 2010. New Keynesian versus old Keynesian government spending multipliers. *Journal of Economic dynamics and control,* 34(3), 281-295.
Patinkin, Don (1990). On Different Interpretations of the *General Theory*, *Journal of Monetary Economics*, (October), *26*: 205-243. [Reprinted in S&V 1997: 55-94].
*Tobin, James (1993). Price flexibility and output stability: an old Keynesian view. *Journal of Economic Perspectives* 7(1), 45-65.
Milonakis, D. and B. Fine (2009). "From Keynes to general equilibrium: short- and long-run revolutions in economic theory", chap 14 in *From Political Economy to Economics*. New York: Routledge.

IV. New Classical Macroeconomics

Note: This section combines the so-called 'neo-classical synthesis' and new classical theories

A. Monetarism

Quantity theory of money demand and basic principles of monetarism
Monetary policy: what it can and cannot do

Readings:
*Snowdon and Vane, chapter 4

*Friedman, Milton (1968). The Role of Monetary Policy, *American Economic Review*, (March), *58*: 1-17.
*Friedman, M. (ed.), 1956. *Studies in the Quantity Theory of Money*. Chicago: University of Chicago Press. Chapter I Quantity Theory of Money: A restatement (by Friedman); Chapter V Monetary velocity in the U.S. (by Selden).
*Cukierman, A., S. B. Webb, and B. Neyapti (1992). Measuring the independence of central banks and its effect on policy outcomes. *World Bank Economic Review*, 6 (3), 353-398.

B. Rational Expectations and Macroeconomics

Importance of expectations in macroeconomics
Adaptive expectations
Some applications:
- rational-expectations and the Phillips curve

- the monetary policy ineffectiveness proposition
- dynamic inconsistency and monetary policy

Readings:

*Romer, chapters 2, 10

*Sargent, T.J., 2013. *Rational Expectations and Inflation (Third Edition).* Princeton University Press. Chapter 1: "Rational Expectations and the Reconstruction of Macroeconomics" ebook available through UMass library here. https://www-jstor-org.5colauthen.library.umass.edu/stable/j.ctt2jc97n

*Lucas, R. E., & Sargent, T. (1981). "After Keynesian macroeconomics." In Lucas and Sargent (Eds.). *Rational expectations and econometric practice.* Volume *1*, 295-319. (ebook available at the UMass Library).

*Phelps, E. S. 1967. Phillips curves, expectations of inflation and optimal unemployment over time. *Economica*, 254-281.

*Sargent, T. J., and Wallace, N. (1975). Rational expectations, the optimal monetary instrument, and the optimal money supply rule, *Journal of Political Economy*, 83(2).

Cagan, Philip. (1956). The monetary dynamics of hyperinflation. In M. Friedman (Ed.), *Studies in the Quality Theory of Money*. Chicago University Press.

McCallum, Bennett (1980) Rational expectations and macroeconomic stabilization. An overview, *Journal of Money, Credit and Banking*, 12(4).

Muth, John (1961) Rational expectations and the theory of price movements, *Econometrica*, 29(3).

Okun, Arthur M. (1980). Rational-Expectations-with-Misperceptions As a Theory of the Business Cycle. *Journal of Money, Credit and Banking*, 12(4), 817-825.

Phelps, E. S. 1968. Money-wage dynamics and labor-market equilibrium. *Journal of political economy,* 76(4, Part 2), 678-711.

C. The Lucas Critique

Motivation, essence, and formal statement of the Lucas critique
Applications: Policy neutrality proposition and its robustness.

Readings:

*Romer, chapters 6, section 6.9

*Snowdon and Vane, chapter 5

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

Sargent, T. J. (2018). *The conquest of American inflation*. Princeton University Press, chapter 2 ("Ignoring the Lucas Critique").

D. Real Business Cycle Theory

RBC stylized facts
Baseline RBC model
Predictions and criticisms of the RBCT

Readings:
*Romer, chapter 5
*Snowdon and Vane, chapter 6

*Lucas, Robert and Leonard Rapping (1969). Real Wages, Employment, and Inflation, *Journal of Political Economy, 77(5)*, 721-754.
**Kehoe, P.J., V. Midrigan, and E. Pastorino (2018). Evolution of modern business cycle models: Accounting for the Great Recession. *Journal of Economic Perspectives*, 32(3), 141-166.
*Kydland, F.E. and E.C. Prescott (1990). Business cycles: Real facts and a monetary myth. *Federal Reserve Bank of Minneapolis Quarterly Review*, Spring.
*Stadler, G.W. (1990). Business Cycle Models with Endogenous Technology. American Economic Review, 80(4). 763-778.
**Stiglitz, J. E. (2018). Where modern macroeconomics went wrong. *Oxford Review of Economic Policy*, 34(1–2), 70–106.
**Summers, L. H. 1986. Some skeptical observations on real business cycle theory. *Federal Reserve Bank of Minneapolis Quarterly Review*. Fall.

King, R. G., & Plosser, C. I. (1984). Money, Credit, and Prices in a Real Business Cycle. *American Economic Review*. 74.
Plosser, C. I. (1989). Understanding real business cycles. *Journal of Economic Perspectives,* 3(3), 51–77.
Prescott, E. C. (1986). Theory ahead of business-cycle measurement. *Carnegie-Rochester Conference Series on Public Policy*, 25, 11–44.
Stadler, G. W. (1994). Real business cycles. *Journal of Economic Literature*, 32(4), 1750–1783.

V. New Keynesian Macroeconomics

General readings on New Keynesian Macroeconomics:
*Snowdon & Vane (2005). Chap 7. New Keynesian Macroeconomics

*Blanchard, O. (2009). The state of macro. *Annual Review of Economics*, 1(1), 209–228.
*Gordon 1990. "What is New-Keynesian Economics?" *Journal of Economic Literature*, 28 (Sep.), 1115-1171
*Stiglitz, J. E. (2018). Where modern macroeconomics went wrong. *Oxford Review of Economic Policy*, 34(1–2), 70–106.

Introduction: Nature and implications of rigidities

Nominal vs. real rigidities
Implications vs. microfoundations of rigidities

A. Sticky wages and unemployment

Efficiency wage model
Search theory and unemployment
Other theories: implicit contracts, unionism and insider-outsider theories, segmented labor markets.

Readings:

*Romer, chapter 6

Mankiw, N. G., & Romer, D. (1991). *New Keynesian Economics-Vol. 1: Imperfect Competition and Sticky Prices (Vol. 1)*. The MIT Press. [henceforth referred to as M&R, vol 1]

Mankiw, N. G., & Romer, D. (1992). *New Keynesian Economics: Coordination failures and real rigidities*, Volume 2. The MIT Press [henceforth referred to as M&R, vol 2]

*Akerlof, G. A., & Yellen, J. L. (1985). Can small deviations from rationality make significant differences to economic equilibria? *The American Economic Review*, 75(4), 708–720.

*Ball, L. and D. Romer (1990). Real Rigidities and the Neutrality of Money, *Review of Economic Studies, 57* (April): 183-203 [M&R, vol. 1: 59-86]

*Shapiro C. and J.E. Stiglitz (1984). Equilibrium Unemployment as a Worker Discipline Device, *American Economic Review, 74(3)*, 433-444.

*Yellen, Janet L. (1984). Efficiency Wage Models of Unemployment, *American Economic Review*, (May): 200-205. [M&R, vol. 2: 113-122]

Akerlof and Yellen. (1990).The fair wage-effort hypothesis and unemployment. *Quarterly Journal of Economics* 105: 255-83.

Lindbeck, A. and Snower J.D. (1986). Wage Setting, Unemployment, and Insider-Outsider Relations, *American Economic Review, 76(2)*, 235-239.

B. Price stickiness and imperfect competition

Imperfect competition: Menu costs; mark up pricing
Coordination failure

Readings:

*Romer, chapter 6

Mankiw, N. G., & Romer, D. (1991)

Mankiw, N. G., & Romer, D. (1992)

*Ball, L., N. G. Mankiw, and D. Romer (1988). The New Keynesian Economics and the Output-Inflation Tradeoff, *Brookings Papers on Economic Activity*, *1:* 1-65. [M&R, Vol. 1: 147-214]

*Blanchard, O.J. and N. Kiyotaki (1987). Monopolistic Competition and the Effects of Aggregate Demand, *American Economic Review 77*, 647-666. [M&R, Vol. 1]
*Mankiw, Gregory (1985). Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly, *Quarterly Journal of Economics*, (May), *100*: 529-539. [M&R, Vol. 1: 29-42]

C. Financial market imperfections

Sources of credit market imperfections
Implications of imperfections
Stiglitz's 'barebones' alternative macro model with financial market imperfections

Readings:
*Romer, chapter 10

*Fama, E. (1970). Efficient Capital Markets: A Review of Theory and Empirical Work. *The Journal of Finance* 25(2): 383-417.
*Stiglitz, J. E. (1999). Interest rates, risk, and imperfect markets: Puzzles and policies. *Oxford Review of Economic Policy*, 15(2), 59–76.
*Stiglitz, J. E. (2018). Where modern macroeconomics went wrong. *Oxford Review of Economic Policy*, 34(1–2), 70–106.
*Stiglitz, Joseph and Andrew Weiss (1981). Credit Rationing in Markets with Imperfect Information, *American Economic Review*, *71(3)*, pp. 393-410.

Fama, E. (1991). Efficient Capital Markets II. *The Journal of Finance*. 46(5): 1575-1617.
Johnson, M. (2020). Where economics went wrong: A review essay. *Journal of Economic Literature*, 58(3), 749–776.

VI. Theories of Macro Relationships

A. Consumption

Life cycle consumption theory
Permanent income theory
Liquidity constraints and consumption

Readings:
*Romer, chapter 8
*Sargent, T. J. (1987), chapter 12
Jappelli, T., & Pistaferri, L. (2017). *The economics of consumption: Theory and evidence*. Oxford University Press.

*Ando, Albert and Franco Modigliani, 1963. The Life Cycle Hypothesis of Saving: Aggregate Implications and Tests, *American Economic Review*, *53 (1)*, 55-84.
*Friedman, M. (1957). *A Theory of the Consumption Function*, Princeton: Princeton University Press, chapters II and III.

*Hall, R. (1978) Stochastic Implications of the Life Cycle Permanent Income Hypothesis: Theory and Evidence, *Journal of Political Economy*, *86(6)*: 501-517.
* Havranek, T. and A. (2021). Sokolova Do consumers really follow a rule of thumb? Three thousand estimates from 144 studies say "probably not". *Review of Economic Dynamics* 35, 97–122
*Jappelli, T. and M. Pagano (1989). Consumption and Capital Market Imperfections: An International Comparison, *American Economic Review*, (December), *79(5)*: 1088-1105
*Zeldes, Stephen (1989). Consumption and Liquidity Constraints: An Empirical Investigation, *Journal of Political Economy*, *97(2)*, 305-346.

Philippe Bacchetta, Stefan Gerlach (1997). Consumption and credit constraints: International evidence, *Journal of Monetary Economics*, 40(2), 207-238.
Blanchard, Olivier J. (1981). What Is Left of the Multiplier Accelerator? *The American Economic Review*, vol. 71, no. 2, 150–54.
Campbell, J. Y., & Mankiw, N. G. (1989). Consumption, income, and interest rates: Reinterpreting the time series evidence. *NBER macroeconomics annual*, 4, 185-216.
Carroll, C. D. (2001). A theory of the consumption function, with and without liquidity constraints. *Journal of Economic Perspectives*, 15(3), 23–45.
Carroll, C. D. (1997). Buffer-Stock Saving and the Life Cycle/Permanent Income Hypothesis. *The Quarterly Journal of Economics*, 112(1), 1–55.
Frederick, S., Loewenstein, G., & O'Donoghue, T. (2002). Time discounting and time preference: A critical review. *Journal of Economic Literature*, 40(2), 351–401.

B. Investment

The accelerator investment model
The *q* theory of investment
Finance, liquidity and investment: early motivation and evidence
Capital market imperfections, financing constraints and investment

Readings:
*Romer, chapter 9

*Brown, J. R., Fazzari, S. M., & Petersen, B. C. (2009). Financing innovation and growth: Cash flow, external equity, and the 1990s R&D boom. *The Journal of Finance*, 64(1), 151–185.
*Fazzari, S., R.G. Hubbard and B. Petersen (1988). Finance Constraints and Corporate Investment, *Brookings Papers on Economic Activity, 1*: 141-206
*Hubbard, R. G. (1998). Capital Market Imperfections and Investment, *Journal of Economic Literature*, Vol. XXXVI, 193-225.
*Jorgenson, Dale W. (1971). Econometric Studies of Investment Behavior: A Survey, *Journal of Economic Literature, 9(4)*: 1111-1147.
*Stiglitz, Joseph and Andrew Weiss (1981). Credit Rationing in Markets with Imperfect Information, *American Economic Review*, *71(3)*, pp. 393-410.

*Tobin, James (1969). A general equilibrium approach to monetary theory, Journal of Money, Credit, and Banking 1:15-29.

Chirinko, Robert S. (1993). Business Fixed Investment Spending: Modeling Strategies, Empirical Results, and Policy Implications, *Journal of Economic Literature, 31*: 1875-1991.
Modigliani and Miller (1958) The cost of capital, corporation finance, and the theory of investment American Economic Review. Economic Review 48: 261-97.
Ndikumana, L. (2008). Can macroeconomic policy stimulate private investment in South Africa? New insights from aggregate and manufacturing sector-level evidence. *Journal of International Development: 20*(7), 869-887
Ndikumana, L. (2016). Implications of monetary policy for credit and investment in sub-Saharan African countries. *Journal of African Development*, 18(2), 1–18.
Shapiro, M. D., Blanchard, O. J., & Lowell, M. C. (1986). Investment, Output, and the Cost of Capital. *Brookings Papers on Economic Activity,* 1: 111-164.

VII. Growth Theory

A. Traditional Theory

Harrod-Domar growth model
Solow growth model
Balanced growth path; transitional dynamics; steady state; golden rule.
Convergence: absolute convergence vs. conditional convergence. Theory and evidence.
Steady state effects of technological progress

B. Endogenous growth theory

Motivation of endogenous growth theory
Long-run growth without decreasing returns to scale
Long-run growth with endogenous saving: dynamics of consumption and capital stock
Long-run growth and institutions

Readings:
*Romer, chapters 1, 2, 3, 4
*Snowdon and Vane, chapter 11

Barro and Sala-i-Martin (1999). *Economic Growth. Cambridge*: MIT Press. Chapters 1, 2, 4, 12.
Aghion and Howitt (1998). *Endogenous Growth Theory*. Cambridge, MA: MIT Press.
Nelson, R. R. (2005). *Technology, institutions, and economic growth*. Harvard University Press.

*Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. *Handbook of economic growth*, Vol. *1*, 385-472.

*Frankel, M. (1962). The production function in allocation and growth: a synthesis. *American Economic Review*, 52(5), 996-1022.
*Jones, C. I. (1995). Time series tests of endogenous growth models. *The Quarterly Journal of Economics*, 110(2), 495-525.
*Mankiw, N.G., D. Romer, and P. Weil (1992). A Contribution to the Empirics of Economic Growth. *Quarterly Journal of Economics*, 107(2), 407-437.
*Romer, P. M. (1994). The origins of endogenous growth. *Journal of Economic perspectives*, 8(1), 3-22.
*Solow, R. (1956). A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics, 70*: 65-94.
*Solow, R. (1999). Neoclassical Growth Theory, in Taylor and Woodford (Eds.) *Handbook of Macroeconomics*, Vol.1.
*Temple, J. (1999). The new growth evidence. *Journal of economic Literature*, 37(1), 112-156.

Cass, David (1965). Optimum Growth in an Aggregative Model of Capital Accumulation. *Review of Economic Studies, 32*: 233-240.
Durlauf, S. and D. Quah (1999). The New Empirics of Economic Growth, in Taylor and Woodford (Eds.) *Handbook of Macroeconomics*, Vol.1.
Glaeser, E.L., La Porta, R., Lopez-de-Silanes, F. *et al.* (2004). Do Institutions Cause Growth? *Journal of Economic Growth* **9,** 271–303.
Mankiw, N. G., Phelps, E. S., and Romer, P. M. 1995. The growth of nations. *Brookings Papers on Economic Activity,* 1995(1), 275-326.
Nelson, R. R. (1998). The agenda for growth theory: A different point of view. *Cambridge Journal of Economics*, 22(4), 497–520.
Sachs, J.D. and Andrew M. Warner (1997). Fundamental Sources of Long-Run Growth. *American Economic Review* , 87(2), 184-188.

VIII. Macroeconomic Policy

A. Monetary Policy

Evolution of theories of monetary policy
Monetary policy frameworks and control of inflation

Readings:

*Romer, chapter 12
*Snowdon and Vane, chapter 4
Bernanke, B. S., & Woodford, M. (2005) (Eds.). *The inflation-Targeting Debate*. University of Chicago Press. Chapters 1, 2, 6.
Galí, Jordi and Mark Gertler (Eds.) (2009). *International Dimensions of Monetary Policy*. Chicago: Chicago University Press.
Sargent (1987), chapter XVII.
Sargent, T. J. (2018). *The conquest of American inflation*. Princeton University Press.

*Clarida, R., Gali, J., & Gertler, M. (1999). The science of monetary policy: a new Keynesian perspective. *Journal of Economic Literature*, 37(4), 1661-1707.

*Clarida, R., Gali, J., & Gertler, M. (2000). Monetary policy rules and macroeconomic stability: evidence and some theory. *The Quarterly Journal of Economics*, 115(1), 147-180.
*Friedman, M. (1968). The Role of Monetary Policy. *American Economic Review*, 58: 1-17.
*Kydland and Prescott (1977). Rules rather than discretion: the inconsistency of optimal plans. *Journal of Political Economy* 85: 473-92.
*Sargent and Wallace (1975). Rational expectations, the optimal monetary instrument, and the optimal money supply rule. *Journal of Political Economy*, 83(2).
*Svensson, L. E. (1997). Inflation forecast targeting: Implementing and monitoring inflation targets. *European Economic Review*, 41(6), 1111–1146.

Aron, J., & Muellbauer, J. (2002). Estimating monetary policy rules for South Africa. In N. Loayza & K. Schmidt-Hebbel (Eds.), *Monetary Policy: Rules and Transmission Mechanisms.* Central Banking, Analysis, and Economic Policies Book Series, pp. 427-476. Santiago, Chile: Central Bank of Chile.
Beckworth, D. (2017). Permanent versus temporary monetary base Injections: Implications for past and future Fed Policy. *Journal of Macroeconomics*, *54*, 110-126.
Bernanke, B. S., & Gertler, M. (1995). Inside the black box: The credit channel of monetary policy transmission. *Journal of Economic Perspectives*, 9(4), 27–48.
Bernanke, B. S., & Mishkin, F. S. (1997). Inflation targeting: a new framework for monetary policy? *Journal of Economic perspectives*, *11*(2), 97-116.
Bhandari, A., Evans, D., Golosov, M., & Sargent, T. J. (2021). Inequality, Business Cycles, and Monetary-Fiscal Policy. *Econometrica*, 89(6), 2559–2599.
Blinder, Alan S. (1997). What Central Bankers Can Learn from Academics—and Vice-Versa. *Journal of Economic Perspectives*, 11(2): 3-19
Brownbridge and Kasekende (2018). Inflation targeting in Uganda: What lessons can we learn from five years of experience? in Berg and Portillo (Eds.), *Monetary policy in sub-Saharan Africa*. Oxford: Oxford University Press, chap. 2.
Fama, E. (1970). "Efficient Capital Markets: A Review of Theory and Empirical Work" *The Journal of Finance* 25(2): 383-417.
Fama, E. (1991). Efficient Capital Markets II. *The Journal of Finance*. 46(5): 1575-1617.
Fischer, S., R. Sahay, and C. A. Végh. 2002. Modern hyper-and high inflations. *Journal of Economic Literature* 40 (3): 837–80.

B. Fiscal Policy

Budget deficits and debt dynamics
Fiscal policy and inflation

Readings:

*Romer, chapter 13

*Catão, L. A.V., and M. E. Terrones. 2005. Fiscal deficits and inflation. *Journal of Monetary Economics* 52 (3): 529–54.
*Sargent, T. J., and N. Wallace. 1981. Some unpleasant monetarist arithmetic." Federal Reserve Bank of Minneapolis *Quarterly Review* 5 (Fall): 1–7.

Fischer, S., & Easterly, W. (1990). The economics of the government budget constraint. *The World Bank Research Observer*, 5(2), 127–142.
Bhandari, A., Evans, D., Golosov, M., & Sargent, T. J. (2021). Inequality, Business Cycles, and Monetary-Fiscal Policy. *Econometrica*, 89(6), 2559–2599.
Blanchard, O. J., Dell'Ariccia, G., & Mauro, P. (2010). Rethinking Macroeconomic Policy. IMF Staff Position Note, February 12(SPN/10/03).
Blanchard, O. J., Dell'Ariccia, G., & Mauro, P. (2013). Rethinking Macro Policy II: Getting Granular. IMF Discussion Note, April 15(DSN/13/03).
Fischer, S., & Easterly, W. (1990). The economics of the government budget constraint. *The World Bank Research Observer*, 5(2), 127–142.
Cochrane, J. H. 2001. Long-term debt and optimal policy in the fiscal theory of the price level. *Econometrica* 69 (1): 69–116.
Cukierman, A., S. Edwards, and G. Tabellini. 1992. Seigniorage and political instability. *American Economic Review* 80 (3): 537- 555.
Fischer, S., and W. Easterly. 1990. The economics of the government budget constraint. *The World Bank Research Observer* 5 (2): 127–42.
Gordon, D. B., and E. M. Leeper. 2006. The price level, the quantity theory of money, and the fiscal theory of the price level. *Scottish Journal of Political Economy* 53 (1): 4–27.

ECON 705 – Spring 2023
Indicative Calendar

Week	Dates	Section	Activities and remarks
1	2/7 2/9	I: Introduction and Overview II: Classical Macroeconomics	
2	2/14; 2/16	Classical macro III. Keynesian macroeconomics	
3	2/21; 2/22	Keynesian macroeconomics	
4	2/28; 3/2	IV. New classical macroeconomics	2/28: Title and Abstract of Term Paper due
5	3/7; 3/9	IV. New classical macro	Assignment #2 due 3/6
6	3//14 3/16	NO CLASS	SPRING RECESS
7	3/21; 3/23	V. New Keynesian macro	
8	3/28;3/30	V. New Keynesian macro	Assignment #3 due 3/28
9	4/4 4/6	VI.A Consumption	Midterm exam: TBD
10	4/11; 4/13	VI.B Investment	
11	4/18; 4/20	VII. Growth theory	Assignment #4 due 4/20
12	4/25; 4/27	Growth theory	
13	5/2 5/4	VIII.A Monetary policy	Assignment #5 due 5/4
14	5/9; 5/11	VIII.A Monetary policy VIII.B Fiscal policy	
15	5/16	Fiscal policy	Term paper due 5/19, 5pm
	TBD	Final exam	TBD

Letter Grade Brackets

Highest	Lowest	Letter
100 %	93 %	A
92.99 %	90%	A-
89.99 %	87%	B+
86.99 %	83%	B
82.99 %	80%	B- (passing grade for PhD)
79.99 %	77%	C+
76.99 %	73%	C
72.99 %	70%	C-
69.99 %	67%	D+
66.99 %	60%	D
59.99 %	0%	F

Accommodation Statement

The University of Massachusetts Amherst is committed to providing an equal educational opportunity for all students. If you have a documented physical, psychological, or learning disability on file with Disability Services (DS), you may be eligible for reasonable academic accommodations to help you succeed in this course. If you have a documented disability that requires an accommodation, please notify me within the first two weeks of the semester so that we may make appropriate arrangements.

Academic Honesty Statement

Since the integrity of the academic enterprise of any institution of higher education requires honesty in scholarship and research, academic honesty is required of all students at the University of Massachusetts Amherst. Academic dishonesty is prohibited in all programs of the University. Academic dishonesty includes but is not limited to: cheating, fabrication, plagiarism, and facilitating dishonesty. Appropriate sanctions may be imposed on any student who has committed an act of academic dishonesty. Instructors should take reasonable steps to address academic misconduct. Any person who has reason to believe that a student has committed academic dishonesty should bring such information to the attention of the appropriate course instructor as soon as possible. Instances of academic dishonesty not related to a specific course should be brought to the attention of the appropriate department Head or Chair. Since students are expected to be familiar with this policy and the commonly accepted standards of academic integrity, ignorance of such standards is not normally sufficient evidence of lack of intent (http://www.umass.edu/dean_students/codeofconduct/acadhonesty/).

In-Class Recordings by Students and Selling of Notes:

Students may only use the notes they take from class for their own personal use, or share with UMass Disabilities Services. Students cannot share (sell) these notes via an outside

vendor or entity without the faculty/instructor's permission. This pertains to in-class recordings as well. Usage of the notes or in-class recordings in this way without instructor permission is a violation of instructor copyright protection.

Preferred Gender Pronoun and Name:

Class rosters are provided to instructors with the student's legal name, where you can put in your preferred pronouns. Please let me know if you use a different name. Also, when you introduce yourself to the instructors or other students please take the opportunity to share your preferred pronouns.