

Econ 797N: Behavioral and structuralist macro models

Spring 2022

MoWe 11:15 am - 12:30 pm

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Office hours: Tu 10am - 12 noon

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

Preliminary course outline and readings:

1. Microeconomic foundations (1 week)

- a. The Lucas critique
- b. The Lucas solution and representative agents

Readings:

Lecture notes, chapters 1-2.

Blanchard, O. (2018) "On the future of macroeconomic models". *Oxford Review of Economic Policy*, 34(1--2), pp. 43--54.

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.

2. Consumption (2 weeks)

- a. Expectations, present bias and credit constraints
- b. Social preferences

- c. Saving in a corporate economy: stock-flow consistency and the ‘neo-Pasinetti theorem’

Readings:

Lecture notes, chapters 3-4

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

Frederick, S., Loewenstein, G. and O'Donoghue, T. (2002) "Time discounting and time preference: a critical review". *Journal of Economic Literature*, Vol. XL (June), pp. 351-401.

Hendry, D.F. and Muellbauer, J.N.J. (2018) "The future of macroeconomics: macro theory and models at the Bank of England". *Oxford Review of Economic Policy*, 34(1--2), pp. 287-328.

Mian, A. and Sufi, A. (2018) Finance and Business Cycles: The Credit-Driven Household Demand Channel". *Journal of Economic Perspectives*, 32(3), pp. 31—58.

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

3. *Phillips curves and the natural rate of unemployment* (2 weeks)

- a. Phillips curves and the evidence
- b. Fragility of standard theory
- b. Money illusion
- d. Hysteresis

Readings:

Lecture notes, chapters 5-6

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.

Blanchard, O.J. (2016) "The Phillips Curve: Back to the '60s?" *American Economic Review*, 106(5), pp. 31-34.

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.

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.

4. *Wage inequality* (1 week)

- a. SBTC or 'power-biased technological and institutional change'?
- b. 'Overeducation'

Readings:

Lecture notes, chapter 7

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.

Autor, David, Alan Manning, and Christopher Smith. 2016. "The contribution of the minimum wage to US wage inequality over three decades: a reassessment." *American Economic Journal: Applied* 8(1), 58-99.

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. (2012) "Employment and Distribution Effects of Changes in the Minimum Wage". *Journal of Economic Behavior and Organization*, 84 (1), pp. 245– 264..

5. *The stability problem* (1 week)

- a. The Keynesian argument
- b. Taylor rules and liquidity traps

Readings:

Lecture notes, chapter 8

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.

6. Economic growth and cycles (2 weeks)

- a. Harrod
- b. The Solow solution and the Cambridge capital controversy
- c. Baseline Keynesian and Marxian solutions
- d. Cycles in hybrid Keynes-Marx models
- e. Minsky and financial instability

Readings:

Lecture notes, chapters 9-10

Barbosa-Filho, N.H. and L. Taylor (2006), 'Distributive and demand cycles in the US economy: a structuralist Goodwin model,' *Metroeconomica*, 57(3), 389–411.

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.

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

von Arnim, R. and Barrales, J. (2015) Demand-driven Goodwin cycles with Kaldorian and Kaleckian features". *Review of Keynesian Economics*, 3(3), pp. 351-373.

7. Secular stagnation and functional finance (1 week)

Readings:

Lecture notes, chapter 11

Ash, M., Basu, D. and Dube, A. (2017) "Public Debt and Growth: An Assessment of Key Findings on Causality and Thresholds". Working paper 2017-10, UMass Amherst.

Blanchard, O. (2019) "Public Debt and Low Interest Rates". *American Economic Review*, 109(4), pp. 1197–1229.

Eggertsson, G.B. and Krugman, P. (2012) "Debt, deleveraging, and the liquidity trap". *Quarterly Journal of Economics*, pp. 1469–1513.

Lerner, A.P. (1943) "Functional finance and the federal debt". *Social Research*, Vol. 10, No. 1, pp. 38-57.

Rachel, L. and Summers, L. (2019) "On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation". BPEA Conference Drafts, March 7–8, 2019.

Reinhart, C.M. and Rogoff, K.S. (2010) "Growth in a time of debt". *American Economic Review Papers and Proceedings*, 100 (May), pp. 573–578.

Ryoo, S. and Skott, P. (2013) "Public debt and full employment in a stock-flow consistent model of a corporate economy". *Journal of Post Keynesian Economics*, 35(4), pp. 511-527.

Schlicht, E. (2006) "Public Debt as Private Wealth: Some Equilibrium Considerations". *Metroeconomica*, pp. 494-520.

Summers, L. (2015) "Demand side secular stagnation". *American Economic Review: Papers and Proceedings*, 105(5), pp. 60–65.

7. Post-Keynesian growth models and controversies (3 weeks)

- a. Post-Keynesian growth models
- b. Kaleckian models and 'wage-led growth'
- c. The utilization rate
- d. Autonomous demand and supermultipliers
- e. 'Financialization'

Readings:

Blecker, R.A (2017) "Wage-led versus profit-led demand regimes: the long and the short of it". *Review of Keynesian Economics*, 4(4), pp. 373–390.

Dutt, A.K. (1984) "Stagnation, income distribution and monopoly power". *Cambridge Journal of Economics*, 8, pp. 25-40.

Dutt, A.K. (2006) "Maturity, stagnation and consumer debt: a Steindlian approach," *Metroeconomica*, 57(3), pp. 339-364.

Hein, E. and van Treeck, T. (2010) "'Financialisation' in post-Keynesian models of distribution and growth". In M. Setterfield (ed.) *Handbook of Alternative Theories of Economic Growth*. Elgar.

Hein, E., M. Lavoie, and T. van Treeck (2011) "Some instability puzzles in Kaleckian models of growth and distribution: a critical survey". *Cambridge Journal of Economics* 35 (3), 587–612

Girardi, D. and Pariboni, R. (2019) "Normal utilization as the adjusting variable in Neo-Kaleckian growth models: a critique". *Metroeconomica*, 70 (2), pp. 341-358.

Lavoie, M. (2016) "Convergence towards the normal rate of capacity utilization in neo-Kaleckian models: The role of non-capacity generating autonomous expenditures". *Metroeconomica*, 67(1), 172–201.

Lavoie, M. (2017) "Prototypes, reality and the growth rate of autonomous consumption expenditures: A rejoinder". *Metroeconomica*, 68(1), 194–199.

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.

- 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.
- Nikiforos, M. (2016) "On the 'utilization controversy': A theoretical and empirical discussion of the Kaleckian model of growth and distribution". *Cambridge Journal of Economics*, 40(2), 437–467.
- Onaran, Ö. and G. Galanis (2013), 'Is aggregate demand wage-led or profit-led? A global model,' in M. Lavoie and E. Stockhammer (eds), *Wage-Led Growth: An Equitable Strategy for Economic Recovery*, Basingstoke, UK: Palgrave Macmillan for the ILO, pp. 71–99.
- Setterfield, M. (2019) "Long-run variation in capacity utilization in the presence of a fixed normal rate," *Cambridge Journal of Economics*, 43(2), pp. 443-63.
- Skott, P. (2010) "Growth theory". Mimeo.
- Skott, P. (2012) "Theoretical and empirical shortcomings of the Kaleckian investment function". *Metroeconomica*, Vol. 63, pp. 109-138.
- Skott, P. (2017a). Autonomous demand and the Harroddian criticisms of the Kaleckian model. *Metroeconomica*, 68(1), 185–193.
- Skott, P. (2017b) "Weaknesses of 'wage-led growth'". *Review of Keynesian Economics*, Vol. 5 No. 3, Autumn, pp. 336–359.
- Skott, P. (2019) "Autonomous demand, Harroddian instability and the supply side". *Metroeconomica*, 70(2), pp. 233–246.
- Skott, P. and Ryoo, S. (2008) "Macroeconomic implications of financialization". *Cambridge Journal of Economics*, 2008, 32 (6), 827-862.
- Skott, P. and Zipperer, B. (2012) "An empirical evaluation of three post-Keynesian models". *Intervention –European Journal of Economics and Economic Policies*, Vol. 9(2), pp. 277-308.
- Skott, P., Costa Santos, J. F. and Oreiro, J. L. (2022) "Supermultipliers, 'endogenous autonomous demand' and functional finance". *Metroeconomica*, 73(1), pp. 220–244
- Stockhammer, E. (2004) "Financialisation and the Slowdown of Accumulation". *Cambridge Journal of Economics*, 28, pp. 719-741.
- Stockhammer, E. (2015) "Wage-led versus Profit-led Demand: What Have we Learned? A Kalecki-Minsky View". Post Keynesian Economics Study Group Working Paper 1512
- Stockhammer, E. and Mitchell, J. (2017) "Pseudo-Goodwin cycles in a Minsky model". *Cambridge Journal of Economics*, Volume 41, Issue 1, pp. 105–125.