

Spring 2008

ECONOMICS 164:
History of Modern Macroeconomics: From Keynes to the Present

Administrative Details

Instructor: Professor K.D. Hoover

Lecture: 4:25-5:40 PM Monday, Wednesday, 124 Social Science Building

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Web Page: <http://www.econ.duke.edu/~kdh9> or access through Blackboard. I will keep up-to-date information about the course on my website.

Office Hours: 11:00 AM-12:00 Noon, Mondays; 1:00-2:00 PM Wednesdays. I would be happy to meet with you outside of office hours by appointment: please make an appointment either after class or e-mail.

Prerequisites

Econ 164 requires the completion of Econ 110D or permission of instructor. *If you do not fulfill the prerequisites you should not be enrolled in this course.*

Course Description

How did modern macroeconomics come to be? An examination of some of the key developments in macroeconomics from the 1930s through the 1980s. Case studies of the evolution of macroeconomics in political and social context. Topics include the theory of unemployment in the Great Depression; growth theory and the rise of business cycle modeling in the aftermath of World War II; the trade-off between inflation and unemployment in the 1950s and '60s; the debate over monetarism in the age of stagflation; and the rise of the New Classical Macroeconomics in its aftermath.

Required Work and Grading

There are *three required graded parts to the course:*

1. *Weekly short assignments:* 40 percent. These assignments are meant to make sure that you are up to speed on, and engaged in, the primary readings. You may write anything that you wish about the primary readings for the week. These may be a simple précis, summarizing crisply the main points of one of the readings or, better, may seek to engage the reading by highlighting specific historical or interpretive issues that interest you or difficulties that you face in making sense of the author's points. These assignments will be graded on the basis of how seriously informed and engaged in the reading that they show you to be. There is an absolute maximum of 1000 words. Short assignments are due at the beginning of class on Mondays and will not be accepted late. If you have to miss class for anything other than a verifiable emergency, work that is in my mailbox in the Economics Department (213 Social Sciences Building) before I return from class will be counted as on time.

2. *Class participation*: 20 percent. The class will mix lecture and discussion. Students are expected to be prepared to discuss topics and to participate actively.
3. *Term paper*: 40 percent. A substantial term paper on a topic related to the course. (More information below and on the course website.)

Academic Ethics

I will hold you to strict standards of academic ethics. I encourage students to discuss economics and the class material together, to help each other in coming to understand the material. Nevertheless, work submitted for a grade must ultimately be the work of the individual student – not copied from another student or from any other source. The weekly assignments are not research papers and, generally, do not rely on secondary sources. However, any direct quotation should be clearly attributed to its source. The term papers *are* research papers and require scholarly documentation *any work using outside sources* (i.e. footnotes, bibliography, or other citation forms); *quotations must be properly indicated* (e.g., by quotation marks) *and sources of information and ideas that are beyond the commonplace properly documented*. Plagiarism is a serious matter and is totally unacceptable. If you have any doubts about what is appropriate and acceptable, please contact me.

Reading

The principal readings for this course are the original texts. However, many of these are technical and as an aid to understanding you should purchase and read in parallel the more accessible textbook:

Brian Snowdon and Howard R. Vane, *Modern Macroeconomics: Its Origins, Development, and Current State*. Cheltenham: Edward Elgar, 2005.

Readings are broken up by topics, which will be taken in order, but do not correspond in any simple way to the calendar. Readings are divided into Primary Sources and Commentaries. On most topics, our major focus will be on the primary sources. The textbook is indicated below by “Snowdon and Vane.”

All readings except the textbook are electronically accessible: go to the Readings link on the course website:

<http://www.econ.duke.edu/~kdh9/Courses/Econ%20164/164master.htm>

From there, some readings are available through direct links to the library; others (marked Course Readings) from a password-protected directory on the course website. (I will distribute login information by e-mail to all members of the class.)

0. Background and Overview

COMMENTARIES

Snowdon and Vane, ch. 1.

Roger E. Backhouse, *The Ordinary Business of Life: From the Ancient World to the Twenty-first Century*. Princeton: Princeton University Press, [chapter 10](#) (pp. 211-236) and [chapter 13](#) (pp. 288-308). [Course Readings](#).

Kevin D. Hoover, "[A History of Postwar Monetary and Macroeconomics](#)," in Warren J. Samuels, Jeff E. Biddle, and John B. Davis, *A Companion to the History of Economic Thought*. Oxford: Blackwell, 2003, ch. 26, pp. 411-427. [Course Readings](#).

1. Unemployment and Depression

PRIMARY SOURCES

John Maynard Keynes, *The General Theory of Employment Interest and Money*.

London: Macmillan, 1936, chapters. 1, 2, 3, 18, 24. (Download in three parts: [Part #1](#), [Part #2](#), [Part #3](#). [Course Readings](#).)

John R. Hicks, "[Mr. Keynes and the Classics](#)," *Econometrica*, Vol. 5, No. 2. (Apr., 1937), pp. 147-159.

COMMENTARIES

Snowdon and Vane, ch. 2 and ch. 3, pp. 101-113.

2. Growth Theory

PRIMARY SOURCES

R. F. Harrod, "[An Essay in Dynamic Theory](#)," *Economic Journal*, Vol. 49, No. 193. (Mar., 1939), pp. 14-33.

Robert M. Solow, "[A Contribution to the Theory of Economic Growth](#)," *Quarterly Journal of Economics*, Vol. 70, No. 1. (Feb., 1956), pp. 65-94.

Robert M. Solow, "[Technical Change and the Aggregate Production Function](#)," *Review of Economics and Statistics*, Vol. 39, No. 3. (Aug., 1957), pp. 312-320.

COMMENTARIES

Snowdon and Vane, ch. 11, pp. 579-613.

3. Inflation and Unemployment

PRIMARY SOURCES

A. W. Phillips, "[The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957](#)," *Economica*, New Series, Vol. 25, No. 100. (Nov., 1958), pp. 283-299.

Paul A. Samuelson and Robert M. Solow, "[Analytical Aspects of Anti-Inflation Policy](#)," *American Economic Review*, Vol. 50, No. 2, (May, 1960), pp. 177-194.

COMMENTARIES

Snowdon and Vane, ch. 3, pp. 135-162.

4. Monetarism

PRIMARY SOURCES

Milton Friedman, "[The Quantity Theory of Money: A Restatement](#)," in Milton Friedman, editor, *Studies in the Quantity Theory of Money*. Chicago: University of Chicago Press, pp. 3-19. Course Readings.

Friedman and Schwartz [A Monetary History of the United States 1867-1960](#).

Princeton: Princeton University Press, ch. 13, pp. 673-700. Course Readings.

Milton Friedman, "[The Role of Monetary Policy](#)," *American Economic Review*, Vol. 58, No. 1. (Mar., 1968), pp. 1-17.

COMMENTARIES

Snowdon and Vane, ch. 4.

J. Daniel Hammond, [Theory and Measurement: Causality Issues in Milton Friedman's Monetary Economics](#). Cambridge: Cambridge University Press, 1996, ch. 7. Course Readings.

6. The New Classical Macroeconomics

PRIMARY SOURCES

Robert E. Lucas, "[Testing the Natural Rate Hypothesis](#)" (1972) in Robert E. Lucas, *Studies in Business Cycle Theory*. Oxford: Blackwell, 1981, pp. 90-103. Course Readings.

Robert E. Lucas, Jr., "[Some International Evidence on Output-Inflation Tradeoffs](#)," *American Economic Review*, Vol. 63, No. 3. (Jun., 1973), pp. 326-334.

Robert E. Lucas and Thomas J. Sargent "[After Keynesian Macroeconomics](#)," Federal Reserve Bank of Minneapolis *Quarterly Review*, Vol. 3, No. 2, (Spring 1979).

James Tobin, "[The Monetarist Counter-Revolution Today – an Appraisal](#)," *Economic Journal*, Vol. 91, No. 361. (Mar., 1981), pp. 29-42.

COMMENTARIES

Snowdon and Vane, ch. 5.

Kevin D. Hoover, [The New Classical Macroeconomics](#). Oxford: Blackwell, chs. 2-4. Course Readings.

7. Afterword: From Past to Present

COMMENTARIES

Snowdon and Vane, chs. 6 and 7.

Term Paper Topics

Term papers should focus on primary sources. You should consult with me about the exact topic and how to get started on it by mid-semester (every student should have seen me by 5 November 2008). Detailed instructions concerning the term paper available on the course website. You are strongly encouraged to develop topics that interest you. If you are stuck, here are some suggestions. Most will require further refinement and definition.

1. The 20th century precursors to Keynes.
2. Filling in the Keynesian model – the development of particular features such as the consumption function, the money-demand function, the investment function.
3. Growth and the environment – consider the macroeconomist's reaction to the anti-growth movement of the early 1970s.
4. The rise and fall of disequilibrium models.
5. The search for the stable money-demand function and financial innovation.
6. The debate over fiscal policy (does government borrowing crowd out private activity or is it neutral?)
7. The monetary approach to the balance of payments in the 1950s and 1960s.
8. Exchange-models in the wake of the floating dollar after 1973.