

14.451. Macroeconomics I

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The purpose of this first course is to introduce the workhorses of the field, and show how they are used.

I shall assume familiarity with macroeconomics at the level of undergraduate macro-textbooks. Two such textbooks, taken completely at random, are

Dornbusch, R. and S. Fischer, *Macroeconomics*, McGraw Hill, 6th edition

Blanchard, O. *Macroeconomics*, mimeo, 1995

You should, before you graduate, and preferably sooner, read some of the classics in the field. Three essential readings are:

Keynes, J.M., *The General Theory of Employment, Interest, and Money*, Harcourt Brace, New York, 1964 (first edition, 1936)

Hicks, J.R., *Value and Capital*, Oxford University Press, 1968 (first edition, 1939)

Modigliani, F., "Liquidity Preference and the Theory of Interest and Money", *Econometrica* 12, January 1944, 45-88 (reprinted in *Collected Papers*, Volume 1, MIT Press, 1982)

The textbook for the course is:

Blanchard, O. and Fischer, S., *Lectures on Macroeconomics*, MIT Press, Cambridge, 1989 (BF in what follows)

A star denotes required reading.

1. Basic macroeconomic facts.

* BF, chapter 1

Gordon, R., "Postwar Macroeconomics: The Evolution of Events and Ideas", in *The American Economy in Transition*, Martin Feldstein ed, NBER and the University of Chicago, 1980, 101-182

Stock, J. and Watson, M., "Variable Trends in Economic Time Series", *Journal of Economic Perspectives*, Summer 1988, 147-174

Blanchard, O. and Quah, D., "The Dynamic Effects of Aggregate Demand and Supply Disturbances", *AER*, September 1989, 655-673

2. The Ramsey Model and RBC's.

* BF, chapter 2

* Prescott, E., "Theory Ahead of Business Cycle Measurement", *Quarterly Review, Fed of Minneapolis*, Fall 1986, 9-22

McGrattan, E., "A Progress Report on Business Cycle Models", *Quarterly Review, Fed of Minneapolis*, Fall 1994, 2-16

3. The Diamond Model, and Capital Accumulation.

* BF, chapter 3

Gokhale, J. Kotlikoff, L. and J. Sabelhaus, "Understanding the Post-War Decline in United States Saving: A Cohort Analysis", working paper, November 1994.

Poterba, J. and Summers, L., "Finite Lifetimes and the Effects of Budget Deficits", *JME*, September 1987, 369-392

Barro, R., "World Real Interest Rates", *NBER Macroeconomics*, 1990, 15-60

4. The Cagan Model, and Hyperinflations.

* BF, chapters 4-7, and 10-2

Dornbusch, R., Sturzenegger, F. and H. Wolf, "Extreme Inflation: Dynamics and Stabilization", *BPEA*, 1990-2, 1-84

5. The ISLM and Expectations.

* Sargent, T., *Macroeconomic Theory*, Academic Press, 1979, chapter 1 and 2

* Blanchard, O., "Output, the Stock Market, and Interest Rates", *AER*, 1981, 71-1, 132-143

* Dornbusch, R., "Expectations and Exchange Rate Dynamics", *JPE*, 84-6, December 1976, 1161-1176

Giavazzi, F. and M. Pagano, "Can Severe Fiscal Contractions Be Expansionary; Tales of Two Small European Countries", *NBER Macroeconomics Annual*, 1990, 75-122

6. The AS-AD, Output and Inflation.

★ BF, chapter 8

★ Lucas, R., "Some International Evidence on Output-Inflation Trade-offs", *AER*, June 1973, 326-334

★ Taylor, J., "Staggered Wage Setting in a Macro Model", *AER*, May 1979, 69-2, 108-113

Barro, R., "Unanticipated Money Growth and Unemployment in the United States", *AER*, March 1977, 67-2, 101-115

Gali, J., "How Well Does the IS-LM Fit Postwar U.S. Data?", *QJE*, May 1992, 107-2, 709-738

Christiano, L., Eichenbaum M., and C. Evans, "The Effects of Monetary Policy Shocks: Evidence from the Flow of Funds", Working paper, 1994.

7. The Bigger Machines.

Bryant, R. et al, *Empirical Macroeconomics for Interdependent Economies* Brookings Institution, Washington, 1988, chapters 1 to 3.

Taylor, J., *Macroeconomic Policy in a World Economy*, Norton, New York, 1993, chapters 3 to 5