

YALE UNIVERSITY
U
JAMES TOBIN

(Undergraduate course, intermediate macro for honors majors, sophs and juniors)
Econ 153b: Macroeconomic Theory and Policy

Spring term 1994

Textbook: Gregory Mankiw, Macroeconomics, 2nd edition, hot off the press. You will need to own GM. You might wish to buy Keynes, General Theory, which every serious economics student should have.

Reading list: You will be able to get most but not all of what you need from GM and our class meetings. The other readings will introduce you to some of the original and classic contributions to the field, and enable you to go further now or later into subjects that interest you. Some of my own pieces on the list will give you written sources of things I will probably say in class or wish I had time to say in class. Starred (*) items are especially optional. It is more important to understand the basic ideas than to cover and take notes on lots of material.

Mathematics: I don't expect to use any deep math, but if you need help on any tools you encounter, you could refer to Chiang, Fundamental Methods of Mathematical Economics.

Midterm exam: February 23, in class.

Final exam: Three-hour open-book, as scheduled by Registrar.

Oral Reports: We will devote 20-30 minutes each week to student reports on current macroeconomic events, policies, and issues, as will be arranged in class. You will distribute a two or three page written version of your report.

Weekly lunch: In the past the TA and I had lunch every Monday before class with any members of the class who wanted to come, at a reserved table in Silliman. We will continue the custom this year beginning January 24 if there is interest. This is wholly informal and voluntary.

Grade will be based at least 75% on Final, but good performance on mid-term, reports, and participation in class discussion could make a positive difference.

My office is 30 Hillhouse Ave. (Cowles Foundation), room 30, phone 23720. I will generally keep the time after class until 4 pm for you. Or you can make an appointment for another time.

The TA is **Joe Boyer** 37 Hillhouse room 23, 23563. He will arrange with you times for collective and individual consultations. He will frequently give you problems to do. Experience shows that those who do, or at least try to do, such problems fare better in a course like this than those who do not.

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I. Introduction: Market-clearing and Macroeconomics Jan. 10,12,17,19

GM chapters 1,2, and sections 3.1,3.2 (pp. 43-53)
Smith/Tobin, "Chapter IV Aggregate Supply in the Short Run" (mimeo handout), pp 1-7 and section IV.8, pp 36-44.

Keynes, GT, chapters 1,2,3.

Tobin, "Current Controversy in Macroeconomics," (handout)

Tobin, "Business Cycles and Economic Growth: Current Controversies About Theory and Policy." (handout)

Tobin, "An Old Keynesian Counterattacks." (handout)

II. Long-run Economic Growth Jan 24,26,31

GM chapters 3,4.

*Tobin, "Population Growth", mimeo handout

*Denison, Accounting for Slower Economic Growth, Chapters 1, 9.

*Bosworth, Tax Incentives and Economic Growth, Chapters 1, 2, 6.

*Tobin and Wiedenbaum, Two Revolutions in Economic Policy, 1962 Econ Report pp 135-142 and Ch. 2 pp 194-229. 1982 Econ Report pp 360-364 and Ch. 5 pp 427-451. [Note: these page numbers are those at top of page] This book reprints the basic economic platforms of the Kennedy and Reagan Administrations. The 1962 references here are the original statement of Okun's Law and of the Kennedy economists' (including Solow and Tobin) views on growth. The 1982 references give the Reagan economists' views on these subjects.

III. Aggregate Demand

IIIa. IS/LM Feb 2,7,9.

Gary Smith, Macroeconomics, Chapter 3

GM chapters 9,10.

*Hicks, "Mr. Keynes and the Classics: A Suggested Interpretation," (pamphlet reserve) The original source of "IS/LM"

IIIb. Open Economy Extensions Feb 14,16,21

GM chapters 7,13.

Mundell "Capital Mobility and Stabilization Policy under Fixed and Floating Exchange Rates," Canadian Journal, Nov 1963, 475-485 (pamphlet reserve). An original source of Mundell-Fleming model.

*Tobin & DeMacedo, "The Short-run Macroeconomics of Floating Exchange Rates," Essays III, Ch. 19.

*Tobin, "Eight Myths about the Dollar," (pamphlet reserve)

MIDTERM EXAM FEB 23 IN CLASS

IV. Aggregate Supply Feb 28, March 2.

GM chapter 8

Smith/Tobin "Chapter IV" (mimeo handout) through section IV.6

SPRING RECESS

V. Unemployment and Inflation March 21,23.

GM chapter 5,11.

Smith/Tobin "Chapter IV" (mimeo handout), all sections.

*A. W. Phillips "The Relationship between Unemployment and the Rate of Change of Money Wage Rates in the U.K. 1861-1957", Economica 1958, 283-299. (pamphlet reserve) The original Phillips curve article.

*P. A. Samuelson and R. Solow, "Analytical Aspects of Anti-Inflation Policy", American Economic Review May 1960, 177-94. (pamphlet reserve) Famous or notorious tradoff article.

*M. Friedman, "The Role of Monetary Policy", American Economic Review, March 1968 (pamphlet reserve) or in his The Optimum Quantity of Money and Other Essays, Ch. 5. Classic "natural rate" article.

*R. E. Lucas, "Econometric Testing of the National Rate Hypothesis", in Eckstein, ed. The Econometrics of Price Determination, 1972, 50-59, reprinted in his Studies in Business Cycle Theory, 90-103. First salvo in New Classical reinterpretation of Phillips curve observations.

*Tobin, "Inflation," in Douglas Greenwald, ed., Encyclopedia of Economics, pp.530-543.

VI. Money March 28,30, April 4.

GM Chapter 6,18.

Gary Smith, Macroeconomics, Chapters 14,15.

Keynes, General Theory, Chapters 13-15. [Skip appendix to ch 14]

Tobin, Essays I, Chapters 13, 15, 18.

Tobin, "Monetary Policy" Fortune Encyclopedia of Economics, pp. 272-279.

*W. Poole, "Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model," Quarterly Journal of Economics, May 1970, 197-216. (pamphlet reserve)

*Tobin, "Financial Structures and Monetary Rules," Kredit und Kapital 1983, 155-171 (pamphlet reserve)

*Tobin, "Financial Intermediaries", The New Palgrave, vol 2, pp.340-348.

*Tobin, "Money", The New Palgrave Dictionary of Money and Finance Vol. 2 pp.770-779.

VII. Consumption, Saving, Investment. April 6,11.

GM chapters 15,17.

Keynes, General Theory, Book III (Chapters 8-10).

Tobin, "Wealth, Liquidity, and the Propensity to Consume," Essays II, Chapter 33

*Tobin, Essays II, Chapters 29, 32,34.

*Bosworth, Tax Incentives...., Ch. 3.

Barro, Macroeconomics, chapters 13-15.

*Tobin, Asset Accumulation and Economic Activity, Ch. 3. Critique of "Barro-Ricardo theorem"

Keynes, General Theory, Chapters 12-13

*Bosworth, Tax Incentives...., Chapter 4

*Tobin, Essays III, Chapter 4. "q" theory

VIII. **The Big Issues of Theory and Policy** April 13,15,20.

GM chapters 12,14,16, and Epilogue
Keynes, Chapters 1-3,18,19,24.

Tobin, "The Monetary and Fiscal Policy Mix," Federal Reserve Bank of Atlanta Economic Review, August/September 1986, pp. 4-16, handout.
Tobin, "On the Theory of Macroeconomic Policy," (pamphlet reserve).
Stein, "America's Second Fiscal Revolution," Challenge, July/August 1987, pp 4-10.
*Lucas and Sargent, "After Keynesian Macroeconomics," Fed. Res. Bank of Boston Conference Series No. 19, After the Phillips Curve, 49-72, plus discussion, 73-83. Exciting anti-Keynesian polemic
Okun, "Rational Expectations with Misperceptions as a Theory of the Business Cycle," Journal of Money Credit and Banking, Nov. 1980, part 2. Empirical problems with New Classical business cycle theory
*Tobin, "Price Flexibility and Output Stability: An Old Keynesian View," Journal of Economic Perspectives Symposium, Winter 1993 pp 45-65.
Economic Report of the President 1994, parts to be determined on publication

STUDENT REPORTS

About once a week, probably Wednesdays, we will devote the last 20-30 minutes to three student reports of about 5 minutes each, followed by some questions and comments from the class. Each student is expected to perform once during the term. Each student is expected to distribute a two- or three-page written version of the report, the basis for the student's oral presentation.

On each occasion there will be three types of reports, all dealing with current macroeconomic events:

1. Macro news and financial markets. What a brokerage or asset management firm would tell its clients about the significance of new and anticipated macro information for financial markets: equities, bonds, short-term assets, exchange rates. Such reports need not be confined to US events and US markets.
2. Macro news and the economic outlook. This report would be oriented to forecasters of the economy and the households, individuals, nonfinancial businesses, state and local governments whose fortunes depend on it for jobs, sales, budget outcomes, etc.
3. Macro news and policy issues. In this case, you would be informing the President of the U.S. or the Chairman of the Federal Reserve or a member of Congress -- or similar officials in other countries -- what the news means in relation to the issues of policy on their agenda.

We will ask you to indicate your preferences among the three types of reports and your preferences as to dates. Obviously not everyone can put this off until April.