

**M.Phil Subject 3**  
**MACROECONOMICS**

Glossary:	E.J.	Economic Journal
	A.E.R.	American Economic Review
	J.P.E.	Journal of Political Economy
	Q.J.E.	Quarterly Journal of Economics
	J.M.E.	Journal of Monetary Economics
	R.E.S.	Review of Economic Studies
	R.E.&S	Review of Economics and Statistics
	E.E.R.	European Economic Review
	B.P.E.A.	Brookings Papers on Economic Activity
	J.M.C.B.	Journal of Money, Credit and Banking

**GENERAL TEXTS**

There are no texts which deal adequately with the material of my part of the course. Branson is useful for the basics but does not cover much of the more advanced material. An alternative to Branson is Stevenson et al. Blanchard and Fischer is excellent, but at times quite difficult. Even more technically demanding are Sargent's Dynamic Macroeconomic Theory and Azariadis. Lucas and Stokey represents yet another order of complexity. Begg and Sheffrin are good introductions to the rational expectations literature. The lecture notes of Professor Charlie Bean of the LSE are as close to a good graduate textbook as we can get at the moment.

\*O.J. Blanchard and S. Fischer Lectures on Macroeconomic Theory.

W.H. Branson Macroeconomic Theory and Policy, 3rd ed.

\*D.K.H. Begg The Rational Expectations Revolution in Macroeconomics.

R.E. Lucas Models of Business Cycles.

T.J. Sargent Macroeconomic Theory, 2nd edition.

\*S.M. Sheffrin Rational Expectations.

The following is a useful survey of some reasonably recent developments:

\*S. Fischer "Recent Developments in Macroeconomics", E.J., June 1988.

C. Azariadis Intertemporal Macroeconomics, Blackwell, 1993.

T. Sargent, Dynamic Macroeconomic Theory, Harvard University Press, 1987.

R.E. Manuelli and T.J. Sargent, Exercises in Dynamic Macroeconomic Theory, Harvard University Press, 1987..

B. McCallum Monetary Economics, Theory and Policy, Macmillan, 1989.

N. Gregory Mankiw and David Romer (eds). New Keynesian Economics, Vols I & II, MIT Press, 1991.

N.L. Stokey and R.E. Lucas, Recursive Methods in Economic Dynamics, Harvard University Press, 1989.

R.J. Barro and X. Sala-i-Martin, Economic Growth, MC-Graw-Hill, 1995.

David Romer [1996], Advanced Macroeconomics, McGraw-Hill.

Maurice Obstfeld and Kenneth Rogoff [1996], Foundations of International Macroeconomics, The MIT Press.

## **ARTICLES**

The prime reading material for this course is journal articles. However, you are most definitely **not** expected to read everything on the following list. The starred readings indicate the more essential material while unstarred readings will be referred to in passing and can be explored at your leisure.

### **1. Aggregate Demand and Aggregate Supply in a Closed Economy**

\*Branson Chs.3-9.

or

Stevenson et al. Chs. 1-2.

or

or T.J. Sargent, Macroeconomic Theory, Chs. 1 and 2

or B. McCallum, Monetary Economics, Ch. 5.

or David Romer, Advanced Macroeconomics, Chapter 5.

J.R. Hicks "Mr. Keynes and the Classics", Econometrica, April 1937.

J.M. Keynes "The General Theory, Fundamental Concepts and Ideas", Q.J.E., 1937.

J. Tobin, "A General Equilibrium Approach to Monetary Theory", J.M.C.B., February 1969.

R.E. Hall, [1991], Booms and Recessions in a Noisy Economy, Yale University Press, Ch 3.

A.S. Blinder, [1987], "Credit rationing and effective supply failures", E.J., pp. 327-352.

A.S. Blinder and R. M. Solow, [1973], "Does fiscal policy matter", Journal of Public Economics, November.

A.S.Blinder and R.M. Solow [1974], "Analytic foundation of fiscal policy", in A.S. Blinder et.al. The Economics of Public Finance, the Brookings Institution.

R.J.Barro and H.I. Grossman [1971], "A general disequilibrium model of income and employment", AER, March, pp. 82-93.

## **2. Aggregate Demand and Aggregate Supply in an Open Economy**

\*Branson Ch.17.

or

Stevenson et al. Chs. 7-8.1.

R. Dornbusch and S. Fischer Macroeconomics Chs.18, 19.

R. Dornbusch Open Economy Macroeconomics Chs.1-4, 10, 11.

R. Mundell "Capital Mobility and Stabilisation Policy under Fixed and Flexible Exchange Rates", Canadian Journal of Economics and Political Science, November 1963.

\*J.A. Frankel and A. Razin [1987], "The Mundell-Fleming Model a Quarter Century Later: A Unified Exposition", IMF Staff Papers, December, 34, pp. 567-620.

## **3. Stochastic Models and Stabilisation Policy**

\*Branson Ch.16.

or

Stevenson et al. Chs.5-6.

\*W. Brainard "Uncertainty and the Effectiveness of Monetary Policy", A.E.R., May 1967.

W. Poole "Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model", Q.J.E., May 1970.

## **4. Labour Markets and Unemployment**

Blanchard and Fischer Ch.9.

R. Layard, S. Nickell and R. Jackman Unemployment: Macroeconomic Performance and the Labour Market, Chs.1,2,9.

O. Blanchard and L.H. Summers [1986], "Hysteresis and the European Unemployment Problem", NBER Macroeconomics Annual, 1986, Stanley Fischer editor, pp. 15-89.

## **5. Money and Inflation**

P. Cagan "The Monetary Dynamics of Hyperinflation" in M. Friedman (ed.) Studies in the Quantity Theory of Money, 1956.

\*T.J. Sargent and N. Wallace "Some Unpleasant Monetarist Arithmetic", Federal Reserve Bank of Minneapolis Quarterly Review, Autumn 1981.

## **6. Rational Expectations and Economic Policy**

### **6a. General.**

\*Begg, Chs.3-4.

\*Sheffrin, Ch.3.

Stevenson et al. Ch.8.2-8.3.

Blanchard, O.J. and S. Fischer [1989], *Lectures on Macroeconomics*, pp. 529-536 and 542-555.

Blanchard O.J. and C. Kahn [1980], "The solution of linear difference models under rational expectations", Econometrica, July, pp. 1305-1311.

Buiter, Willem H. [1984], "Saddlepoint problems in continuous time rational expectations models: a general method and some macroeconomic examples, *Econometrica*, May, pp. 665-680.

Dorfman, R. [1969], "An Economic Interpretation of Optimal Control Theory", *American Economic Review*, pp. 817-831.

\*R.E. Lucas, "Econometric Policy Evaluation: A Critique", in The Phillips Curve and the Labor Market, D. Brunner & A.H. Meltzer, eds, J.M.E., (Supplement), 1973.

W. Buiter, "The superiority of contingent rules over fixed rules in models with rational expectations", E.J., September 1981, pp. 647-70.

### **6b A flexible, forward-looking general price level.**

Sargent, T.J. [1987], *Macroeconomic Theory*, pp. 34-41.

Sargent, T.J. and N. Wallace [1973], "The stability of money and growth with perfect foresight" *Econometrica*, 41, pp. 1043-1048.

### **6c Unpleasant monetarist arithmetic.**

Sargent, T.J. and N.Wallace [1981], "Some unpleasant monetarist arithmetic", Federal Reserve Bank of Minneapolis Quarterly Review, 5, Fall, also in B. Griffith and G.E Wood eds. [1982], *Monetarism in the U.K.*, MacMillan, and in T.J. Sargent [1986] *Rational Expectations and Inflation*.

Buiter, Willem H. [1987], "A fiscal theory of hyperdeflations?", Some surprising monetarist arithmetic", *Oxford Economic Papers*, 39, pp. 111-118, reprinted in Willem H. Buiter [1990] *Principles of Budgetary and Financial Policy*.

#### **6d The term structure of interest rates.**

\*Turnovsky, Stephen J. and Marcus H. Miller [1984], "The effects of government expenditure on the term structure of interest rates", *JMCB* 16(1), Feb., pp. 16-33.

Fisher, Walter H. and Stephen J. Turnovsky [1992], "Fiscal policy and the term structure of interest rates", *JMCB*, 24(1) Feb., pp.1-26.

#### **6e The stock market and Tobin's q.**

\*Blanchard, O.J. [1981], "Output, the stock market and interest rates", *AER*, March.

Hayashi, Fumio [1982], "Tobin's marginal and average q: a neoclassical interpretation", *Econometrica* (50), Jan. pp. 213-224.

#### **6f The open economy: uncovered interest parity.**

Blanchard, O.J. and S. Fischer, [1989], *Lectures on macroeconomics*, pp. 537-542.

\*Buiter, W.H. and M.H. Miller [1981], "Monetary policy and international competitiveness", *Oxford Economic Papers*, Supplement, July 1981, pp. 143-175.

Buiter, W.H. and W.H. Branson [1983], "Monetary and fiscal policy with flexible exchange rates", in W.H. Buiter, *International Macroeconomics*, Oxford University Press.

\*R. Dornbusch "Expectations and Exchange Rate Dynamics", *J.P.E.*, December 1976.

### **7. Time Consistency and the Positive Theory of Inflation**

Blanchard and Fischer, Ch.11.4.

Stevenson et al. Ch.9.3.

\*R.J. Barro and D.B. Gordon "A Positive Theory of Monetary Policy in a Natural Rate Model", *J.P.E.*, August 1983.

\*F.E. Kydland and E.C. Prescott "Rules Rather than Discretion: The Inconsistency of Optimal Plans", *J.P.E.*, June 1977.

K. Rogoff "The Optimal Degree of Commitment to an Intermediate Monetary Target", *Q.J.E.*, November 1985.

David Romer, Advanced Macroeconomics, Chapter 9.

## **8. Consumption and Labour Supply**

\*Begg Ch.7.1-7.2.

Blanchard and Fischer, Ch.6.1-6.2.

Branson Ch.12.

\*A. Ando and F. Modigliani "The Life Cycle Hypothesis of Saving", A.E.R., March 1963 and A.E.R., March 1964.

D. Breeden "An Intertemporal Asset-Pricing Model with Stochastic Consumption and Investment Opportunities", Journal of Financial Economics, September 1979.

\*R.E. Hall "Stochastic Implications of the Life-Cycle Permanent-Income Hypothesis", J.P.E., December 1978.

R. Lucas and L. Rapping "Real Wages, Employment and Inflation", J.P.E., September 1969.

S. Zeldes "Consumption and Liquidity Constraints: An Empirical Investigation", J.P.E., April 1989.

## **9. OLG Models and Applications.**

Blanchard and Fischer Chs. 2-3.

Obstfeld and Rogoff [1996], Ch. 3, "The Life Cycle, Tax Policy and the Current Account", pp. 129-197.

Romer, Chapter 2.

\*R.J. Barro "Are Government Bonds Net Wealth?", J.P.E., Nov./Dec. 1974.

C.R. Bean "Government Policy and Economic Growth" in A. de Zeeuw (ed.), Advanced Quantitative Economics II, Autumn 1992.

B.D. Bernheim "Ricardian Equivalence: An Evaluation of Theory and Evidence" in NBER Macroeconomics Annual 1987, ed. by S. Fischer. (See also the interchange between Barro and Bernheim in the Journal of Economic Perspectives, Spring 1989.)

O.J. Blanchard "Debt, Deficits and Finite Horizons", J.P.E., April 1985.

D. Cass "Optimal Growth in an Aggregate Model of Capital Accumulation", R.E.S., 1965.

\*P. Diamond "National Debt in a Neoclassical Growth Model", A.E.R., December 1965.

\*W.H. Buiter "Death, Birth Productivity Growth and Debt Neutrality," *Economic Journal*, 98 June 1988. 279-293.

D. Romer [1988], "What are the costs of excessive deficits?" NBER Macroeconomics Annual, 1988, Stanley Fischer ed.

## **11. Investment**

Blanchard and Fischer, Ch.6.3. and 6.4.

Branson Ch.13.

Romer, Chapter 8.

F.H. Hayashi "Tobin's Marginal q and Average q: A Neoclassical Interpretation", Econometrica, January 1982.

D.W. Jorgenson "The Theory of Investment-Behaviour", in Determinants of Investment Behaviour, R. Ferber, ed.

J.G. Witte "The Micro Foundations of the Social Investment Function", J.P.E., October 1963.

\*H. Yoshikawa "On the Q Theory of Investment", A.E.R., September 1980.

A.B. Abel, A.K. Dixit, J.C. Eberly and R.S. Pindyck "Options, the value of capital and investment", NBER Working Paper No. 5227, August 1995.

L.H. Summers [1981], "Taxation and corporate investment: a q-theoretic approach", BPEA, 1, pp. 67-140.

O.J. Blanchard, C Rhee and L.H. Summers [1993], "The stock market, profit, and investment", QJE, 108(1), February, pp. 115-136.

R.S. Pindyck [1991], "Irreversibility, uncertainty and investment", JEL. 29(3), September, pp.1110-1148.

A. Dixit [1992], "Investment and hysteresis", Journal of Economic Perspectives, Winter.

A. Dixit and R.S. Pindyck [1994], Investment under Uncertainty, Princeton University Press

Hubbard, R.G. and A.K. Kashyap [1992], "Internal net worth and the investment process: an application to US Agriculture", JPE, 100(3), June, pp. 506-534.

Chirinko, R.S. {1993}, "Business Fixed Investment Spending: A Critical Survey of Modelling Strategies, Empirical Results and Policy Implications". JEL, 31, December, pp. 1875-1911.

