

Four Lectures on Fiscal Policy

General Readings:

M. Burda and C. Wyplosz [1993], *Macroeconomics; A European Text*, Chs. 10-15.

J. Sachs and F.Larrain B. [1993], *Macroeconomics in the global economy*, Chapter 7.

(1) Short-run stabilization policy.

Blinder, A.S. and R.M. Solow [1974], "Analytic foundations of fiscal policy", in A.S. Blinder et.al. *The economics of public finance*, The Brookings Institution, 1973.

(2) Fiscal policy at full employment.

Buiter, Willem H. [1977], "Crowding out and the effectiveness of fiscal policy", *Journal of Public Economics*, 7, pp. 309-28.

(3) Financing the public sector deficit.

A.S. Blinder and R. M. Solow [1974], *The economics of public finance*, The Brookings Institution, Washington D.C.

Buiter, Willem H. [1989], "Some thoughts on the role of fiscal policy in stabilization and structural adjustment in developing countries", Sections 14.5-15.8 (pp. 430-4450) in W.H. Buiter, *Principles of Budgetary and Financial Policy*, MIT Press.

Sargent, T.J. and N. Wallace [1981], "Some unpleasant monetarist arithmetic", *Federal reserve Bank of Minneapolis Quarterly Review*, 5, Fall, also in Thomas J. Sargent, *Rational Expectations and Inflation* [1986].

J. Sachs and F.Larrain B. [1993], *Macroeconomics in the global economy*, Chapter 11.

(4) The sustainability of fiscal policy.

W.H. Buiter [1985], "A guide to public sector debt and deficits", *Economic Policy*, 1, November, pp. 13-79.

Buiter, Willem H. [1989], "Some thoughts on the role of fiscal policy in stabilization and structural adjustment in developing countries", in W.H. Buiter, *Principles of Budgetary and Financial Policy*, MIT Press.

W. Easterly and K. Schmidt-Hebbel [1994], "Fiscal adjustment and macroeconomic performance: a synthesis", in W. Easterly, C.A. Rodriguez and k. Schmidt-Hebbel, *Public sector deficits and macroeconomic performance*, Oxford University Press.

Sample questions.

- (1) What is meant by government solvency? How would you assess whether or not the UK government is, and is likely to remain, solvent?
- (2) Discuss the pros and cons of using the change in the government's fiscal deficit as an indicator of the extent to which fiscal policy has an expansionary or a contractionary effect on aggregate demand.
- (3) Discuss the arguments for and against the fiscal convergence criteria of the Treaty of Maastricht.
- (4) Show how the unexpected announcement today of a future increase in public spending can have a contractionary effect on aggregate demand today.