

# Macroeconomics-6: Macroeconomic Policy

New Economic School, Module 1, Fall 2024

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## Course information

Course Website: [my.nes.ru](http://my.nes.ru)

Instructor's Office Hours: By appointment #2.25. I should be in my office every week day

Class Time: M 11.45-13.15 and T 13.45-15.15

TA: TBD; No TA sessions

## Course Description

Until the Covid pandemic, much of the developed world, including Japan, the United States, and Europe, still appeared to be mired in a slow-growth quagmire, even if growth is slowly picking up in the US. Central bankers did not find a solution to how to conduct monetary policy in a liquidity trap, or how to respond to the so-called "secular stagnation" afflicting developed economies. In this course, we will focus on stabilization policy, debating the causes of the financial crisis and the so-called "Lesser Depression" in the historical context of the Great Depression, the event that gave rise to the field of Macroeconomics.

Keynes' description of the requirements of becoming a master economist were that "[she] must be mathematician, historian, statesman, philosopher..." With that lofty ideal in mind, this course aims to arm students with practical knowledge on how to conduct stabilization policy, with mathematical tools necessary to read and participate in the academic debate on policy, and with knowledge of the history of stabilization policy and the historical context in which the field of Macroeconomics was created. This class also aims to develop students' skills analyzing data, coding, and to refine students' writing and debating skills.

Additionally, as I am a trader, the course will analyze some macro trades I have made over the years.

## Course Requirements, Grading, and Attendance Policies

The course will consist of one test, several homework assignments (including one using Stata, and one which is more writing-intensive). The course grade will be determined 70% from the final, and the rest from the home assignments. In addition, there will be several opportunities for bonus points, the first being a CV in latex, which I will take time myself to edit your English (if you want, you can do in Russian if you have no use for an English CV). Secondly, class participation will be rewarded with 1% bonus for the semester. If an exam or a significant part of the assignments are missed for any reason, then a student will have to take the retake exam. Questions on the exam will be a mix of short answer questions covering topics from lecture and the starred readings, and in solving problems. If a student needs to miss the exam due to an emergency, this emergency needs to be documented (if possible, prior to the exam), and then the student can take the makeup exam in place of the final. However, expect the makeup exam to be more difficult and graded more stringently, and may cover additional articles. Note that the slides in general will not be sufficient to prepare for the exam, so that coming to class is strongly recommended to prepare for the exam. Even so, I realize that some students also work (I would strongly advise against this), and so if you miss class for work it is best to discuss this with me early in the course and some allowances can be made.

### Bonus Point Opportunities

There will be several opportunities for bonus points throughout the semester. The first of these opportunities is to do your C.V. in latex. I'll provide my template on the course webpage which you can just edit to make this as easy as possible.

### Sample Task for Course Evaluation

Write a referee report on Gautti Eggertsson's recent paper "[Are Negative Nominal Interest Rates Expansionary?](#)".

## Course Contents

1. Course Introduction and the Intellectual History of Macroeconomics
2. Notes on Empirical Research
3. The Great Depression (several lectures)
4. Banking; Bretton Woods
5. Identifying Monetary Policy Shocks
6. Wage Determination and Sticky Prices

7. Asian Financial Crisis + BWII
8. Japan
9. The Fiscal Policy Debate
10. The Great Recession and Secular Stagnation

## Course Materials

This course is based more on articles than particular textbooks. The required readings contain \*stars and the suggested readings do not. The non-starred readings are there to give those who are interested in the subject more references, or for those who may want to write their theses on the subject, but they are not required readings for the exams. There include a small bit of reading from the chapters from the book we used throughout macroeconomics 3-5 (below). Slides will be available at my.nes, as well as papers. Note that I will solve some models on the blackboard and will extensively use slides when we discuss empirical evidence. Lastly, this syllabus is subject to extensive changes as the course goes along.

### Lecture 1: Course Introduction and the Intellectual History of Macroeconomics

\*Cochrane, John, [What if We Got the Wrong Sign on Monetary Policy?](#) Mulligan, Casey, [Who Cares About Federal Funds?](#) ; Clark, Gregory [Dismal Scientists: How the Crash is Reshaping Economics](#) ; Krugman, Paul, [How Did Economists Get it So Wrong?](#) ; Krugman, Paul, [A Dark Age of Macroeconomics](#) (also read links) ; Krugman, [The Profession and the Crisis](#); Caplan, Bryan, [The Decline of Economic Theory](#) ; Caplan, Bryan, [Economath Fails the Cost-Benefit Test](#) ;

### Lectures 2-6: The Great Depression

#### A. Intro to the Great Depression

\*Paul Krugman, ["Introduction" to John Maynard Keynes, The General Theory of Employment, Interest and Money](#) ;

\*Eichengreen, B. (1995), "Golden Fetters" (Only the short introduction is required; see course webpage)

\*Paul Krugman, [Babysitting the Economy](#)

Bernanke, Ben and Harold James, [The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison](#); Eichengreen, B. (1992), "The Origins and Nature of the Great Slump Revisited." *Economic History Review* 45(2), 212-239; Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States 1867 to 1960*. Princeton: Princeton University Press, Chapter 7. McCloskey, D. N., and J. R. Zecher. "How the Gold Standard Worked, 1880-1913." In *The Gold*

Standard in Theory and History, edited by B. Eichengreen. New York: Methuen, 1985. Eichengreen, B., [Still Unfettered After all These Years](#) ;

B. Modeling the Great Depression

\*Greg Mankiw [“2008 = 1929?”](#) (notes on deflation in an IS-LM framework)

\*Ohanian, ["What – or Who – Started the Great Depression?"](#) (Journal of Economic Theory, 2009)

[Notes on Open-Economy IS-LM](#); Paul Krugman, [There’s Something About Macro](#)

C. More on the Great Depression

\*Robert Shiller, [“Narrative Economics”](#)

Rajan, Raghuram, and Rodney Ramcharan, (2014), ["Financial Fire Sales: Evidence from Bank Failures"](#)

Lecture 7: Notes on Empirical Research

Morgan Kelly (2019) [“The Standard Errors of Persistence”](#); Campbell, Douglas (2016) [“Is the AER Replicable? And is it Robust? Evidence from a Class Project”](#) ; Benassy-Quere, Bussiere, Wibaux (2018) [“Trade and Currency Weapons”](#) (listed to critique their identification strategy, or lack thereof) Campbell, Douglas, [“Is the AER Replicable? And is it Robust? Evidence from a Class Project”](#); Summers, Larry. (1991) [“The Scientific Illusion in Empirical Macro”](#) ; Gelman, Andrew, [“A Replication in Economics: Does Genetic Distance to the US Predict Development”](#)

Lecture 8: Miscellaneous Topics: Bretton Woods; Dutch Disease

Bretton Woods I and Exchange Rate Policy, (short section)

Jay C. Shambaugh, 2004. "The Effect of Fixed Exchange Rates on Monetary Policy," QJE

Klein & Shambaugh (2015) Rounding the Corners of the Policy Trilemma: Sources of Monetary Policy Autonomy

Monnet, Eric ["Monetary Policy Without Interest Rates"](#).

Dutch Disease and the Resource Curse

Smith, Brock, ["The Resource Curse Exorcised: Evidence from a Panel of Countries"](#) (published version on my.nes) ; Smith, Brock, ["Dutch Disease and the Oil Boom and Bust"](#) (published version on my.nes)

## Lecture 9: Identifying Monetary Policy Shocks

\*Andersen, Bollerslev, Diebold, Vega, ["Real-Time Price Discovery in Stock, Bond and Foreign Exchange Markets"](#)

Christiano, Lawrence J., Martin Eichenbaum, and Charles L. Evans, ["Monetary Policy Shocks: What Have We Learned and To What End?"](#) in J.B. Taylor and M. Woodford, eds., Handbook of Macroeconomics, vol. 1A, Elsevier, 1999; Velde (2007) ["Chronicle of a Deflation Unforetold"](#)

## Lecture 10: Wage Determination and Sticky Prices

\*Bryan Caplan channeling Truman Bewley, ["Why Wages Don't Fall During a Recession? Q&A with Me Channeling Truman Bewley."](#);

Mankiw, N. Gregory and Lawrence Ball, "A Sticky Price Manifesto". Krugman, Paul ["The Triumph of Backward Looking Economics"](#) ; Roberts, John M., "New Keynesian Economics and the Phillips Curve," Journal of Money, Credit, and Banking 27(4), November 1995, Part 1, pp. 975-84. ; Caplan, Bryan, ["A Challenge for Anti-Keynesians"](#); Krugman, Paul ["On the Neo-Paleo-Keynesian Phillips Curve"](#); Krugman, Paul ["More Paleo-Keynesianism \(Slightly Wonkish\)"](#) ; Kliley, [An Evaluation of the Inflationary Pressure Associated with Short and Long-term Unemployment](#)

## Lecture 11: Asian Financial Crisis + BWII

\*Stiglitz, Joseph, Globalization and Its Discontents, Chapter 4 "The East Asian Crisis: How IMF Policies Brought the World to the Verge of a Global Meltdown", (see my.nes).

\*Rogoff, Kenneth, [The IMF Strikes Back](#)

\*DeLong, Brad [A Review of Paul Krugman, The Return of Depression Economics](#)

Rogoff, Kenneth, [An Open Letter to Joseph Stiglitz](#) ; Krugman, Paul, [Analytical Afterthoughts on the Asian Crisis](#) ; Paul Blustein [The Chastening](#) (2003) ; Paul Krugman [Notes on Russian Debt](#) ; Paul Krugman [Russia 2015 Venezuela 1983](#) ; Stiglitz, Joseph, Globalization and Its Discontents, Chapter 5 "Who Lost Russia?", (see my.nes).

## Bretton Woods II and the Rise of China

\*Dooley, M., D. Folkerts-Landau and P. Garber, “An Essay on the Revived Bretton Woods System,” Proceedings (2005)

\*Campbell, Douglas L. “[Did the Rise of China Help or Harm the US? Let Us Not Forget Basic Macro](#)”

Dooley, M., D. Folkerts-Landau and P. Garber, “Savings Gluts and Interest Rates: The Missing Link to Europe.” Dooley, M., D. Folkerts-Landau and P. Garber, “The Revived Bretton Woods System: The Effects of Periphery Intervention and Reserve Management on Interest Rates in Center Countries,” NBER Working Papers 10332, March 2004; Autor, Dorn, Hanson, “[The China Syndrome](#)”

## Lecture 12: Japan

\*Krugman, Paul, 1998, “It’s Back – Japan’s Slump and the Return of the Liquidity Trap,” Brookings Papers on Economic Activity. (Only need to read 137-151 & the “Banking Problems” section from p. 174-177. The discussion at the end featuring many other prominent economists is recommended but not required).

Obstfeld, Maurice, 2009, “[Time of Troubles: The Yen and Japan’s Economy 1985-2008](#)” ; Bernanke, Ben S. “Japanese Monetary Policy: A Case of Self-Induced Paralysis?” Japan’s Financial Crisis and Its Parallels to US Experience (2000): 149-166. ; Caballero, Ricardo J., Takeo Hoshi, and Anil K. Kashyap. “Zombie lending and depressed restructuring in Japan”. No. w12129. National Bureau of Economic Research, 2006. (Just read abstract and introduction)

## Lecture 13: The Fiscal Policy Debate

\*Delong, Brad, “[Matt Yglesias vs. Robert Barro](#)” ; \*Mulligan, Casey, “[Are Employers Unwilling to Hire, or Are Some Workers Unwilling to Work?](#)”

Barro, Robert, “[How to Really Save the Economy](#)” ; Krugman, Paul, Optimal Fiscal Policy in a Liquidity Trap (course webpage) ; Sargent, Thomas, and Neil Wallace (1981) [Some Unpleasant Monetarist Arithmetic](#); Nakamura, Emi, and Jon Steinsson (2011) [Fiscal stimulus in a monetary union: Evidence from US regions](#). Guajardo, Leigh, and Pescatori. [Expansionary Austerity: New International Evidence](#) 2014. Krugman, Paul, [A Note on the Ricardian Equivalence Argument Against Stimulus](#) ; Goldfarb, Zachary, “[Geithner Finds His Footing](#)”; [Cato letter to Obama](#). ;

## Lecture 14: The Great Recession and Secular Stagnation

\*Swanson, Eric T. and John C. Williams, (2014) [“Measuring the Effect of the Zero Lower Bound on Medium- and Longer-Term Interest Rates”](#), AER.

\*Campbell, Douglas L. [Guest Contribution: “The Cause of Secular Stagnation? Relative Prices, Trade, and the People’s Republic of China”](#) ;

\*Ben Bernanke, blog post, [“Why are interest rates so low, Part 2: Secular Stagnation”](#)

\*Ben Bernanke, blog post, [“Why are interest rates so low, Part 3: The Global Savings Glut”](#)

\*Stiglitz (2018) [“The Myth of Secular Stagnation”](#)

\*Summers (2018) [“Setting the Record Straight on Secular Stagnation”](#)

\*Paul Krugman, [“Liquidity Traps: Local and Global”](#)

Campbell, Douglas L. [“Relative Prices, Hysteresis, and the Decline of American Manufacturing”](#) ; ;

Pozsar, Adrian, Ashcraft, Poesky [“Shadow Banking”](#) Eggertsson, Juelsrud, and Wolf (2017) [“Are Negative Nominal Interest Rates Expansionary?”](#) ; Summers (2018) [“Setting the Record Straight on Secular Stagnation”](#) ;

Campbell, Douglas L. [“On the Causes of Secular Stagnation: China, Relative Prices, and the Collapse of Manufacturing”](#) ; Acemoglu et al. (2014) [“Import Competition and the Great Employment Sag of the 2000s”](#) ;

VoxEU Ebook, [“Secular stagnation: Facts, causes, and cures”](#); David Keohane, [Negative Rates and Gesell Taxes: How Low Are We Talking Here](#); Michael Hatcher and Patrick Minford, [“Inflation Targeting vs. Price-Level Targeting: A New Survey of Theory and Empirics”](#) (Just read the first half, up to the section [“The Importance of Rational Expectations”](#));

## Other Recommended Readings

### Economics Blogs:

[Econbrowser](#) (Menzie Chinn’s posts); [Paul Krugman](#) (has slowed considerably); [Tim Duy](#); [Greg Mankiw](#); [John Cochrane](#); [Matt Yglesias](#) (though now he’s switched more to politics); [Free Exchange](#) (the Economist); [Martin Wolf](#); [David Glasner](#); [Scott Sumner](#); [Douglas Campbell](#) (my blog)

The golden age of economics blogs was actually from 2003 to the period just after the financial crisis. With Krugman getting older, and semi-retired from blogging, and Matt Yglesias and some others turning more toward US politics, Econ blogs aren’t as good as they used to be. However, now many top economists in any subfield are on twitter (you can follow me @TradeandMoney), and following them is a

great way to keep track of developments in any given field, and also to interact with leading scholars on about any subject. This is probably also true if you are interested in finance, investing, or management consulting, you can potentially learn a lot by following people in those fields.

Recommended Podcasts:

[David Beckworth](#) (especially interviews with Matt Yglesias and Narayana Kocherlakota)

Recommended Economic Journalists:

David Leonhardt, Zachary Goldfarb, Martin Wolf

## Academic Integrity Policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated. The home writing assignment is not meant to be a collaborative exercise – think of it as a take-home exam. Having said that, if you do discuss with a classmate, there is no way for me to police this. If you cut and paste from a colleagues essay, then you likely be kicked out of NES (do not do that!). If your essay merely happens to make all the same points as your friend’s essay, but with no direct copying, then you’ll probably just both receive low marks, and I’ll be disappointed in you. On the Stata homework, there may be free response questions, and again, if you make all the same points, or run very similar regressions as your friend when in fact there are endless specifications to choose from, then you’ll probably just receive low marks. However, if you run exactly the same regressions as your friend when there are endless possibilities, then that is plagiarism. On the theory homework, however, if you are stuck, you are permitted and even encouraged to get help from classmates or the TA. However, you must write up your own solutions.