

BOSTON COLLEGE  
Department of Economics

EC 304 Macroeconomic Policy  
Fall 2000  
T & Th 10:30 Carney 102

Professor Bob Murphy  
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**Macroeconomic Policy**

Purpose of Course: This course studies macroeconomic policymaking in the United States. We will learn to use the tools macroeconomists employ in providing policy advice. These tools include both analytical models and economic data. We also will examine historical examples of macroeconomic problems and the policies that were used to confront them. Examples will include the military buildup of the 1960s, the oil price shocks of the 1970s, the budget deficits of the 1980s, and the credit crunch of the early 1990s, among others. A major component of the course includes frequent written assignments in which students assess macroeconomic conditions and provide policy guidance. Finally, we will try to ascertain the motives and forces influencing contemporary policymakers at the dawn of the 21<sup>st</sup> Century.

Textbooks and Course Materials: We will use several books during the course along with readings from other sources. Most of the books listed below are available for purchase at the Boston College Bookstore. Other readings will be provided either on-line or handed out in class, as indicated. I also suggest that you obtain a copy of Macroeconomics, by N. Gregory Mankiw, for use as a background reference. You are strongly urged to follow the economic news of the day either in the Wall Street Journal or New York Times. With the Presidential election being a top story this fall, the news will be filled with details and debate about the economic policies of the candidates.

Course Requirements: Students are expected to attend all classes and participate in discussions. Starting in the fourth week of class and continuing throughout the semester, a brief (one-page) writing assignment assessing the current state of the economy will be due each week. You will be provided with guidance in each assignment concerning the data sources on which to base your assessment. Much of the data we will use are available on-line from government sources. During some weeks the assignments will focus on interpreting economic indicators released during that week. During other weeks (particularly when little new data are released) you will be asked to assess a current economic puzzle or problem using a variety of data.

Besides the short, weekly written assignments, you will also be required to submit a longer paper (7-10 pages) exploring the state of the macroeconomy during a one-year period prior to 1993. In this paper you will highlight the underlying macroeconomic problems of the time and assess the adequacy of response to those problems by policymakers. As part of this assignment, you will be encouraged to use an on-line macroeconometric model of the U.S. economy in order to assess alternative policy scenarios.

An integral part of the course will involve obtaining data and other information over the Internet. You must be familiar with the use of Internet browser programs such as

“Netscape” and are strongly urged learn how to graph data in a spreadsheet program such as “Microsoft Excel.” Your written assignments will be greatly enhanced if you are able to present charts to illustrate your arguments. The Boston College Computing Facility in O’Neil Library is the place to start if you need further assistance in using a spreadsheet program. I will have a page for this course posted on my web site: <http://www2.bc.edu/~murphyro> where I links to various materials will be posted

Due Dates: Weekly assignments will be due on Tuesdays. The first assignment will be due on Tuesday, September 26, with one due each week through November 14 (for a total of 8 assignments). A first draft of the longer paper will be due November 16. I will return the paper to you with comments by the following week and you will then revise the paper and submit a final version on December 7, the last day of class.

Grades: I will base your grade on the short written assignments, the longer paper, and a mid-term exam. The longer paper will substitute for the final exam. I plan to count the three components roughly equally in determining the final grade for the course.

## Course Topics

### **I. Tools of the Trade**

1. Review of the ISLM and the Aggregate Demand-Aggregate Supply Model.

Macroeconomics, N.Gregory Mankiw, Worth Publishers, 2000, Chapters 9-13, or an equivalent intermediate-level textbook.

2. Overview of the Macroeconomic Situation in the United States.

Economic Report of the President, 2000, Government Printing Office, February 2000, Chapters 1, 2, and 6 (Internet)

Latest “Beige Book” from the Federal Reserve (Internet).

3. Understanding Economic Indicators.

Handbook of Key Economic Indicators, R. Mark Rogers, McGraw Hill, second edition, 1999, selected chapters.

The Economist Guide to Economic Indicators, John Wiley and Sons, 1998, selected chapters.

4. Macroeconomic Forecasting and Policy Evaluation.

The Fair Model, Ray Fair, 2000, (Internet)

The Washington University Macro Model, Macroeconomic Advisers, LLC (Internet)

5. Selected Episodes in the Macroeconomic History of the U.S. Economy.

Background materials for student papers.

## **II. Monetary Policy and Short-run Macroeconomic Stabilization**

### 6. How Should the Fed Conduct Monetary Policy?

Central Banking in Theory and Practice, Alan Blinder, MIT Press, 1999, Chapters 1 and 2.

Inflation, Unemployment, and Monetary Policy, Robert M. Solow and John B. Taylor, MIT Press 1999.

Macroeconomics, N.Gregory Mankiw, Chapter 14, for an overview of this topic.

### 7. Central Bank Independence: Does it Matter for Policy?

Central Banking in Theory and Practice, Alan Blinder, Chapter 3.

## **III. Macroeconomic Policy and Long-run Economic Growth**

### 8. Deficits, debt, and the budget.

Macroeconomics, N.Gregory Mankiw, Chapter 15.

### 9. What is the proper role for fiscal policy?

Readings to be assigned.

## **IV. Insights into Contemporary Policymaking**

### 10. Evaluating the performance of the Federal Reserve over the past 15 years

Back from the Brink: The Greenspan Years, Steven K. Beckner, John Wiley and Sons, 1996.

### 11. Personalities, motivation and the recent policy record.

Economic Puppetmaster: Lessons from the Halls of Power, Lawrence B. Lindsey, AEI Press, 1999.