

BOSTON COLLEGE
SCHOOL OF MANAGEMENT

EC 364/MF364
Fall 2000
T/Th 12:00-1:15

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Office hours: T/Th 3:00-4:00

MONETARY AND FISCAL POLICY: THEORY AND PRACTICE

The purpose of this course is to introduce students to current issues in macroeconomic policy. It will explore both the theoretical debates and the practical issues faced by policymakers. It will cover a wide range of monetary and fiscal policy topics, from the desirability of moving from low to zero inflation to the outlook for reforming Social Security and Medicare. In addition to the assigned readings, students will be expected to follow the economy closely through the *Wall Street Journal*.

COURSE REQUIREMENTS:

1. The course will have a mid-term exam on October 19 (25%) and a final exam on December 14 (40%).
2. Students will be required to prepare three (3) two-page memos making the case clearly and concisely for one course of action over another (25%).
3. Class participation will be an important part of the course (10%).

SYLLABUS

INTRODUCTION — BRIEF REVIEW OF MACRO POLICY

Sept. 5 — The state of the debate: the theory

Paradigm Lost, *The Economist*, Nov. 3, 1990, pp. 84-85.

Tales of the Expected, *The Economist*, Nov. 10, 1990, pp. 90-91.

Keynes Rides Again, *The Economist*, Nov. 17, 1990, pp. 97-98.

Sept. 7 — The state of the debate: the mechanics

Alan S. Blinder, Do We Know How To Manage the National Economy? in *Hard Heads, Soft Hearts*, Ch. 3 Addison-Wesley Publishing Co. 1987, pp. 67-108.

Christina D. Romer, Changes in Business Cycles: Evidence and Explanations, *Journal of Economic Perspectives*, Spring 1999, Vol. 13, No 2, pp. 23-44.

N. Gregory Mankiw, *Macroeconomics*, Chapters 9 and 10, pp. 227-298 or
Dornbush and Fisher, *Macroeconomics*.

Sept. 12 — The Great Depression — what happened?

Christina D. Romer, The Nation in Depression, *Journal of Economic Perspectives*, Spring 1993, Vol. 7, No 2, pp. 18-39.

THE FED AND MONETARY POLICY

Sept. 14 — The history and structure of the Federal Reserve

The Federal Reserve System: Purposes and Functions, Board of Governors of the Federal Reserve System, Washington, DC, 1994, Chapters 1-3, pp. 1-59.

Frederic S. Mishkin, Structure of Central Banks and the Federal Reserve System *The Economics of Money, Banking, and Financial Markets*, Chapter 15, Addison-Wesley Publishing Co.1998, pp. 389-412.

Geoffrey M. B. Tootell, Are District Presidents More Conservative than Board Governors? *New England Economic Review*, Federal Reserve Bank of Boston, Sept/Oct 1991.

Sept. 19 — How does monetary policy affect the economy?

Christina D. Romer and David H. Romer, Credit Channel or Credit Actions? An Interpretation of the Postwar Transmission Mechanism, in *Changing Capital Markets: Implications for Monetary*, Symposium Sponsored by the Federal Reserve Bank of Kansas City, 1993, pp. 71-129.

Poterba, James M., Stock Market Wealth and Consumption, *The Journal of Economic Perspectives*, Spring 2000, 14(2): pp. 99-118.

Sept. 21 — Does independence matter?

Alberto Alesina and Lawrence H. Summers, Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence, *Journal of Money, Credit, and Banking*, May 1993, pp. 151-162.

Jeffrey C. Fuhrer, Central Bank Independence and Inflation Targeting: Monetary Policy Paradigms for the Next Millenium? *New England Economic Review*, Federal Reserve Bank of Boston, January/February 1997, pp. 19-36.

Sept. 26 — Inflation targeting

Ben S. Bernanke and Frederic S. Mishkin, Inflation Targeting: A New Framework for Monetary Policy? *Journal of Economic Perspectives* , Spring 1997, Vol. 11, No. 2, PP. 97-116.

Mervyn King, How Should Central Banks Reduce Inflation? Conceptual Issues, in *Achieving Price Stability*, Symposium Sponsored by the Federal Reserve Bank of Kansas City, 1996, pp. 53-82.

Sept. 28 — What's up with the CPI?

Michael J. Boskin et al, Consumer Prices, the Consumer Price Index, and the Cost of Living, *Journal of Economic Perspectives*, Winter 1998, pp. 3-26.

Katharine G. Abraham, John Greenlees, and Brent R. Moulton, Working to Improve the Consumer Price Index, *Journal of Economic Perspectives*, Winter 1998, pp. 27-36.

Oct. 3 — Is the NAIRU a useful concept?

Joseph Stiglitz, Reflections on the Natural Rate Hypothesis, *Journal of Economic Perspectives*, Winter 1997, Vol. 11, No. 1, pp. 3-10.

Lawrence F. Katz and Alan B. Krueger, The High-Pressure U.S. Labor Market of the 1990s, *Brookings Papers on Economic Activity*, 1999, Vol. 1, pp. 1-87.

Oct. 5, 10 —Do we want stable prices?

Stable prices and fast growth: just say no, *The Economist*, Aug. 31, 1996.

Alan S. Blinder, Striking a Balance Between Unemployment and Inflation in *Hard Heads, Soft Hearts*, Ch. 2 Addison-Wesley Publishing Co. 1987, pp. 32-66.

Martin Feldstein, Overview, in *Achieving Price Stability*, Symposium Sponsored by the Federal Reserve Bank of Kansas City, 1996, pp. 319-329.

Stanley Fischer, Why Are Central Banks Pursuing Long-run Price Stability? in *Achieving Price Stability*, Symposium Sponsored by the Federal Reserve Bank of Kansas City, 1996, pp. 7-34.

Important but somewhat difficult:

George A. Akerlof, William T. Dickens, George L. Perry, The Macroeconomics of Low Inflation, *Brookings Papers on Economic Activity*, 1996:I, pp. 1-76.

Martin Feldstein, The Costs and Benefits of Going from Low Inflation to Price Stability, in C. Romer and D. Romer, eds, *Reducing Inflation: Motivation and Strategy*, Chicago: Chicago University Press, 1996, pp. 123-166.

Oct. 12 —Why do we need inflation-indexed bonds?

Alicia H. Munnell, Should the U.S. Government Issue Index Bonds? *New England Economic Review*, Federal Reserve Bank of Boston, Sept./Oct. 1986, pp. 3-21.

Inflation-Indexed Securities in *Economic Report of the President*, February 1997, pp. 62-67.

Jeffrey M. Wrase, Inflation-Indexed Bonds: How Do They Work? *Business Review*, Federal Reserve Bank of Philadelphia, July/August 1997, pp.3-16.

Oct. 17 — Monetary policy in theory and practice

Alan S. Blinder, What Central Bankers Could Learn from Academics--and Vice Versa, *Journal of Economic Perspectives*, Spring 1997, Vol. 11, No. 2, pp. 3-19.

Oct. 19 —MID-TERM EXAM

FISCAL POLICY AND THE BUDGET

Oct. 24 —What is the outlook for fiscal policy?

The Budget and Economic Outlook Summary, Congressional Budget Office, *The Economic and Budget Outlook: 2001-2010*, January 2000, p. xiii-xxiv.

The Long-Term Budget Outlook, *Long-Term Budgetary Pressures and Policy Options*, Congressional Budget Office, May 1998, pp. 17-29.

Sensitivity of the Budget to Economic Assumptions, in *Budget of the United States Government Fiscal Year 1999: Analytical Perspectives*, p.14.

Robert D. Reischauer, The Dawning of a New Era, in Henry J. Aaron and Robert D. Reischauer, eds, *Setting National Priorities: The 2000 Election and Beyond*, Washington, DC: The Brookings Institution, 1999, pp. 1-34.

Oct. 26 — Can fiscal policy be effective in an open economy?

Mankiw, *Macroeconomics*, ch.11, pp. 299-331.

Oct. 31 — Do (did) deficits matter?

Benjamin M. Friedman, Learning from the Reagan Deficits, *American Economic Review*, May 1992, pp. 299-304.

Robert Eisner, Deficits: Which, How Much, and So What? *American Economic Review*, May 1992, pp. 295-98.

Robert Barro, The Ricardian Approach to Budget Deficits, *Journal of Economic Perspectives*, Spring 1989, pp. 37-55.

Nov. 2 — Generational accounting--a useful perspective?

Alan Auerbach, Jagadeesh Gokhale, and Laurence J. Kotlikoff, Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy, *Journal of Economic Perspectives*, Winter 1994, pp. 73-94.

Dean Baker, Robbing the Cradle? A Critical Assessment of Generational Accounts, Economic Policy Institute, 1995.

Nov. 7 — What about the distribution of income and wealth?

Edward Wolff, Recent Trends in the Size Distribution of Household Wealth, *Journal of Economic Perspectives*, Summer 1998, pp. 95-111.

U.S. Department of Commerce, Bureau of the Census, *Money Income in the United States: 1998*, pp. v-xviii.

Nov. 9 —What are tax expenditures?

Tax Expenditures in *Budget of the United States Government Fiscal Year 1999: Analytical Perspectives*, pp. 89-100.

Alicia H. Munnell, Current Taxation of Qualified Plans: Has the Time Come? *New England Economic Review*, Federal Reserve Bank of Boston, March/April 1992, pp. 12-25.

Nov. 14, 16 —Outlook for major tax reform

Tax Forms, 1999.

Henry Aaron and Bill Gale, The Rocky Road to Tax Reform, in Henry J. Aaron and Robert D. Reischauer, eds., *Setting National Priorities: The 2000 Election and Beyond*, Washington, DC: The Brookings Institution, 1999, pp. 211-268.

For Better or Worse: Marriage and the Federal Income Tax, Congressional Budget Office, June 1997.

C. Eugene Steuerle, The Simple Arithmetic of Flat Taxes, *Tax Notes*, August 4, 1997, reprinted by Urban Institute.

Henry J. Aaron and William G. Gale, *Economic Effects of Fundamental Tax Reform*, Brookings Institution Press, 1996, Chapter 1.

Nov. 21, 28 — The outlook for entitlement reform: Social Security

Fast Facts & Figures about Social Security: 1999, Office of Research and Statistics, Social Security Administration.

Laurence J. Kotlikoff and Jeffrey Sachs, It s High Time to Privatize, *Brookings Review*, Summer 1997, pp. 16, 18, 20, 22.

Henry J. Aaron, A Bad Idea Whose Time Will Never Come, *Brookings Review*, Summer 1997, pp. 17, 19, 21, 23.

Henry J. Aaron and Robert D. Reischauer, Chapter 5 Privatization, *Countdown to Reform: The Great Social Security Debate*, 2000, pp. 69-90.

Martin Feldstein, Bush s Low- Risk Pension Reforms, *New York Times*, May 22, 2000.

Martin Feldstein and Andrew Samwick, Allocating Payroll Tax Revenue to Personal Retirement Accounts to Maintain Social Security Benefits and the Payroll Tax Rate, June 5, 2000.

Henry J. Aaron, et al., Response to Martin Feldstein e-mail of June 26, 2000.

Nov. 23 — **No Class** — **Thanksgiving Holiday**

Nov. 30 — The outlook for entitlement reform: Social Security, cont.

John Geanakoplos, Olivia S. Mitchell, Stephen P. Zeldes, Would a Privatized Social Security System Really Pay a Higher Rate of Return? in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell eds. *Framing the Social Security Debate: Values, Politics and Economics*, The Brookings Press, 1998, pp. 137-157.

Dec. 5, 7 — The outlook for entitlement reform: Medicare

McClellan, Mark, Medicare Reform: Fundamental Problems, Incremental Steps, *The Journal of Economic Perspectives*, Spring 2000, 14(2): pp. 21-44.

David M. Cutler, Walking the Tightrope on Medicare Reform, *The Journal of Economic Perspectives*, Spring 2000, 14(2): pp. 45-56.

Marilyn Moon, Restructuring Medicare: Impacts on Beneficiaries, The Commonwealth Fund, Program on Medicare s Future, May 1998, pp. ii-20.

Dec. 14 — FINAL EXAM