

BOSTON COLLEGE
Department of Economics

EC 304 Macroeconomic Policy
Spring 2001
T & Th 1:30 Carney 307

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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 21st 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 now finally over and the Bush Administration about to take office, the news will be filled with details and debate about the economic policies of President Bush.

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 (1-2 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. We will devote a couple of classes to discussing your findings.

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, February 6, and an assignment will due approximately each week thereafter through April 10 (for a total of 8 assignments). A first draft of the longer paper will be due April 19. I will return the paper to you with comments by the following class and you will then revise the paper and submit a final version on May 1, the last day of class.

Grades: I will base your grade on the weekly written assignments, the longer paper, a mid-term exam, and class participation. The longer paper will substitute for the final exam. I will count the three written components roughly equally in determining the final grade for the course. Class participation will be used to adjust grades up or down by half a grade level.

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, 2001, Government Printing Office, January 2001, Selected chapters. (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, 2001, (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. Fiscal Policy, Debt, and Social Security

8. Deficits, debt, and the budget.

Macroeconomics, N.Gregory Mankiw, Chapter 15.

Long Term Budget Outlook, Congressional Budget Office, October 2000.

How Big is the Prospective Budget Surplus? Alan Auerbach and William Gale, Brookings Institution Policy Brief #64, September 2000.

9. What is the proper role for fiscal policy?

Readings to be assigned.

10. Macroeconomic Aspects of Social Security Reform

Fast Facts and Figures About Social Security 2000, Social Security Administration.

Social Security and the Federal Budget, Andrew Eschtruth, Boston College Retirement Center Policy Brief, October 2000.

11. Indexed Bonds

“Policy Watch: The Introduction of Indexed Government Debt in the United States,” David W. Wilcox, Journal of Economic Perspectives, Vol. 12, Number 1, Winter 1998.

IV. Productivity, Business Cycles, and the “New Economy”

12. What’s Behind the Recent Surge in Productivity Growth?

"Computers and Aggregate Economic Growth: An Update," Daniel Sichel, Business Economics, April 1999.

"The Resurgence of Growth in the Late 1990s: Is Information Technology the Story?" Stephen Oliner and Daniel Sichel, Federal Reserve Board Working Paper, May 2000.

13. When Do Expansions End?

Economic Report of the President, 1996, Chapter 2 (see pages 25-29)

"Business Cycle Duration Dependence: A Parametric Approach," Daniel Sichel, Review of Economics and Statistics, May 1991.

V. Insights into Contemporary Policymaking

14. 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.

15. Personalities, motivation and the recent policy record.

Maestro: Greenspan’s Fed and the American Boom, Bob Woodward, Simon and Schuster, 2000.

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