

Revised 11/11/97

BOSTON COLLEGE
SCHOOL OF MANAGEMENT

EC 364/MF364
Spring 1998
T Th 12:00-1:15

Alicia H. Munnell
550 Fulton, 2-1934
Office hours:
T Th 4:00-5:00

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:

The course will have a mid-term exam on February 26th (20%) and a final exam in May (45%).

Students will be required to prepare three (3) two-page memos making the case clearly and concisely for one course of action over another (20%).

3. Class participation will be an important part of the course (15%).

SYLLABUS

INTRODUCTION - BRIEF REVIEW OF MACRO POLICY

Jan 13, 15 - The state of the debate: the theory and the mechanics

“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.

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, "Is the Stabilization of the Postwar Economy a Figment of the Data?" *American Economic Review* 76, June 1986, pp. 314-334.

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

Jan 20 - 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.

Peter Temin, "Transmission of the Great Depression," *Journal of Economic Perspectives*, Spring 1993, Vol. 7, No. 2, pp. 87-102.

THE FED AND MONETARY POLICY

Jan 22 - The history and structure of the Federal Reserve

Ann-Marie Meulendyke, *U.S. Monetary Policy and Financial Markets*, Federal Reserve Bank of New York, 1989, Chapters 2, 5, pp. 18-47, 106-122.

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

Geoffrey M. B. Tootell, "Appointment Procedures and a Partisan Political Model," *Southern Economic Journal*, July 1996.

Jan 27 - 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.

Jan 29 - 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 Millennium?" *New England Economic Review*, Federal Reserve Bank of Boston, January/February 1997, pp. 19-36

Feb 3, 5 - 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.

Lawrence Summers, “Commentary: ‘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. 35-43.

Suggested, 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.

Feb 10 : What’s up with the CPI?

Senate Finance Committee, “Final Report of the Advisory Commission to Study the Consumer Price Index,” (“Boskin Report”) S.Prt. 104-72, December 1996, Washington: Government Printing Office.

Katharine G. Abraham, John Greenlees, and Brent R. Moulton, “Working to Improve the Consumer Price Index,” *Journal of Economic Perspectives*, Winter 1997 (forthcoming).

Feb 12 - 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

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

Feb 17, 19 - 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.

Robert J. Gordon, "The Time-varying NAIRU and its Implications for Economic Policy," *Journal of Economic Perspectives*, Winter 1997, Vol. 11, No. 1.

Douglas Staiger, James H. Stock, and Mark W. Watson, "The NAIRU, Unemployment and Monetary Policy," *Journal of Economic Perspectives*, Winter 1997, Vol. 11, No. 1.

Feb 24 - 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

Feb 26 - Mid-Term Exam

Spring Vacation March 2-6

FISCAL POLICY AND THE BUDGET

March 10 : What is the outlook for fiscal policy? The surpluses are coming!

Congressional Budget Office, *The Economic and Budget Outlook: An Update*, September 1997.

March 12 : Can fiscal policy be effective in an open economy?

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

March 17 - Do (did) deficits matter?

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

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

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

Douglas Bernheim, "A Neoclassical Perspective on Budget Deficits," *Journal of Economic Perspectives*, Spring, 1989, pp. 55-72.

March 19 - 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.

Robert Haveman, "Should Generational Accounts Replace Public Budgets and Deficits?" *Journal of Economic Perspectives*, Winter 1994, pp. 95-111.

March 24 : How about a balanced budget amendment?

Concord Coalition, "The Balanced Budget Constitutional Amendment," Issue Brief 96-2, Dec. 20, 1996

Charles L. Schultze, Testimony before the House of Representatives, Committee on the Judiciary, January 9, 1995.

Robert Greenstein and Paul A. Leonard, "The Balanced Budget Constitutional Amendment," Center on Budget and Policy Priorities, September 1993.

March 26 -- Discussion in anticipation of FOMC meeting.

March 31, April 2-- Outlook for major tax reform

C. Eugene Steuerle, "What Are Those Tax Forms Going to Look Like?" *Tax Notes*, 1995 reprinted by Urban Institute.

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	Introduction
Chapter 3	The Effects of Fundamental Reform on Saving
Chapter 8	Distributional Effects of Fundamental Tax Reform
Chapter 9	Transition Issues in Moving to a Consumption

Tax

Congressional Budget Office, *The Economic Effects of Comprehensive Tax Reform*, July 1997.

April 7 : Global warming and fiscal policy?

Robert Repetto and Duncan Austin, *The Costs of Climate Change: A Guide for the Perplexed*, World Resources Institute, 1997

April 9 NO CLASS

April 14, 16 - The outlook for entitlement reform: Social Security

Economic Report of the President 1997, "Economic Challenges of an Aging Population," Chapter 3, pp.93-117.

Jerry Mashaw and Theodore R. Marmor, "The Great Social Security Scare," *The American Prospect*, November 1996, pp.30-37.

Robert M. Ball, "A Secure System," *The American Prospect*, November 1996, pp.34-35.

Edward M. Gramlich, "Different Approaches for dealing with Social Security," *Journal of Economic Perspectives*, Summer 1996, pp. 55-66.

Peter A. Diamond, "Proposal to Restructure Social Security," *Journal of Economic Perspectives*, Summer 1996, pp.67-88.

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.

April 21, 28 - The outlook for entitlement reform: Medicare

Economic Report of the President 1997, "Economic Challenges of an Aging Population," Chapter 3, pp.117-138.

David M. Cutler, "Restructuring Medicare for the Future," in Robert D. Reischauer, ed., *Setting National Priorities: Budget Choices for the Next Century*, Brookings Institution Press, 1997, pp. 197-234.