

BOSTON COLLEGE
SCHOOL OF MANAGEMENT

EC 364 / MF 364
Fall 2004
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 21 (25%) and a final exam on December 15 (40%).
2. Students will be required to prepare a tax return and three (3) two-page memos making the case clearly and concisely for one course of action over another (25%).
3. Required presentations and class participation will be an important part of the course (10%).

SYLLABUS

INTRODUCTION – BRIEF REVIEW OF MACRO POLICY

Sept. 7 – Course introduction

Sept. 9 – 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. 14 – 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 10-11, pp. 227-311 (4th edition) or Dornbush and Fisher, *Macroeconomics*.

Sept. 16 – 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. 21 – The structure of the Federal Reserve

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 15, pp. 389-402.

Sept. 23 – 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.

Sept. 28 – 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.

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 15, pp. 403-412.

Sept. 30 – 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.

Oct. 5 – Is the NAIRU a useful concept?

Laurence Ball and N. Gregory Mankiw. “The NAIRU in Theory and Practice.” *Journal of Economic Perspectives*, Fall 2002, Vol. 16, No. 4, pp.115-136.

Oct. 7 – Do we want stable prices?

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.

Oct. 12 - Do we want stable prices? (continued)

George A. Akerlof, William T. Dickens, George L. Perry, "The Macroeconomics of Low Inflation," *Brookings Papers on Economic Activity*, 1996: I, pp. 1-5; 50-52.

Ben S. Bernanke, "Deflation: Making Sure 'It' Doesn't Happen Here," *Remarks Before the National Economists Club*, Washington D.C. November 21, 2002. Federal Reserve Board, www.federalreserve.gov.

Oct. 14 – Effects of the stock market

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

Diamond, Peter A., "What Stock Market Returns to Expect for the Future?" Center for Retirement Research, Issue in Brief, September 1999 (2): pp. 1-18

Oct. 19 – 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. 21 – MID-TERM EXAM

FISCAL POLICY AND THE BUDGET

Oct. 26 – What is the outlook for fiscal policy?

"The Budget and Economic Outlook Summary," Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2005-2014*, January 2004.

"CBO's Economic Projections for 2003 through 2013," Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2005-2014, Appendix E.*, January 2004.

"How Changes in Assumptions Can Affect Budget Projections," Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2005-2014 Appendix B*, January 2004.

"A 125-Year Picture of the Federal Government's Share of the Economy, 1950 to 2075," Congressional Budget Office, July 2003.

"The Long-Term Budget Outlook," Congressional Budget Office, October, 2001. pp. 1-9

Oct. 28 – President Bush’s Tax Cut

“Mid-Term and Long-Term Deficit Projections,” Center on Budget and Policy Priorities, Committee for Economic Development, and the Concord Coalition. September 2003.

Gale, William, and Peter R. Orszag, “Tax Break: Sunsets in the Tax Code.” *Tax Notes*, June 9, 2003.

Nov. 2 – Can fiscal policy be effective in an open economy?

Mankiw, *Macroeconomics*, Ch.12, pp. 312-348 (4th edition).

“John Snow Comes Adrift,” *The Economist*. May 24, 2003.

Nov. 4 – Do deficits matter? [Guest Lecturer]

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. 9 – What about the distribution of income?

U.S. Department of Commerce, Bureau of the Census. *Income in the United States: 2002* pp. 1-16, 25-28. September, 2003.

David T. Ellwood, “Winners and Losers in America: Taking the Measure of the New Economic Realities,” Aspen Institute, 2000.

Nov. 11 – What about the distribution of wealth?

Paul Krugman, “For Richer,” *The Sunday New York Times Magazine*, Section 6, pg. 62. October 20, 2002.

“Changes in Household Wealth in the 1980s and 1990s in the U.S.” in Edward N. Wolff, Editor, *International Perspectives on Household Wealth*, Elgar Publishing Ltd., forthcoming.

Nov. 16 - Outlook for the Federal Tax System

Tax Forms, 2002.

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.

Nov. 18 – Outlook for the Federal Tax System (continued)

Gale, William, and Joel Slemrod, “Ancestor Worship: Everything You Wanted to Know About Estate Taxes” *The Milken Institute Review*, Q3 2000.

Nov. 23 – What are tax expenditures?

“Tax Expenditures” in *Budget of the United States Government Fiscal Year 2005: Analytical Perspectives*, pp. 285-286, 294-296.

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. 25 – **THANKSGIVING BREAK**

Nov. 30 – The Outlook for Entitlement Reform: Medicare & Social Security

Status of the Social Security and Medicare Programs: A Summary of the 2004 Annual Reports. 2004. Social Security and Medicare Board of Trustees

Robert Greenstein and Richard Kogan “Data in Trustees’ Report Shows Social Security Shortfall Is Less Than Half as Large as the Revenue Loss From the Tax Cut” *Center on Budget and Policy Priorities*, April 2002

Dec. 2 – The outlook for entitlement reform: Social Security (continued)

Fast Facts & Figures about Social Security: 2003, Office of Research and Statistics, Social Security Administration. pp. 1-4, 6-8, 12, 15-16, 22

Alicia H. Munnell, “Reforming Social Security: The Case Against Individual Accounts” *National Tax Journal*. LII (4). December 1999.

The President’s Commission “Strengthening Social Security and Creating Personal Wealth for All Americans” December 2001

Dec. 7 - The outlook for entitlement reform: Social Security (continued)

John Geanakoplos, Olivia S. Mitchell, and Stephen P. Zeldes. “Would a Privatized Social Security System Really Pay a Higher Rate of Return?” in R. Douglas Arnold, Michael J. Graetz, and Alicia H. Munnell, eds. *Framing the Social Security Debate: Values, Politics, and Economics*. National Academy of Social Insurance. Washington, D.C. 1998.

Peter A. Diamond and Peter R. Orszag. 2004. *Saving Social Security: A Balanced Approach*. Washington, D.C. The Brookings Institution. pp. 1-13.

Dec. 9 – Medicare

Marilyn Moon. 2001. *Medicare in the 2002 Budget*. Testimony before the House Budget Committee.

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

Dec. 15 – FINAL EXAM, 9:00 am