

Economics 712
Macroeconomic Analysis II
Fall 2008, Thursday 5:30-8:00, Watkins 606

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Course Description

Economics 712 is a topics course in macroeconomics for Ph.D. students. It is intended to be a broad survey course that exposes you to a variety of important topics in the discipline. There is no single definitive paradigm in macroeconomics, but rather many approaches and models. Many models, however, can be classified by whether they generate conclusions consistent with the classical or Keynesian perspective. This course will focus almost entirely on models of the latter type. Briefly, in Keynesian or neo-Keynesian models, there is some mechanism that allows the supply curve to be upward-sloping in the short run implying that output responds to changes in prices. This is not to say that there is a permanent effect because ultimately supply is constrained by the factors of production or potential output of the economy (the classical view). Most of the topics addressed in the class will pertain to current issues in monetary policy. Finally, you will be asked to read and critique work during the semester; this exercise is intended to help you prepare for the dissertation process and to teach you to read with a critical eye.

Required readings

1. Jordi Galí (2008), *Monetary Policy, Inflation, and the Business Cycle*, Princeton University Press (ISBN 978-0-691-13316-4).
2. David Romer (2006), *Advanced Macroeconomics*, 3rd edition, McGraw-Hill-Irwin (ISBN 0-0728-7730-8).
3. Supplementary readings/articles posted in Blackboard.

Not required but strongly suggested:

Olivier Blanchard (2006), *Macroeconomics*, 4th edition, Pearson-Prentice Hall (ISBN 0-1318-6416-5).

Assignments & Grading

Item	% of final grade	Dates (<i>tentative</i>)
4 Problem sets	10.0	September 18; October 2, 30; November 20
Referee report	5.0	September 11
Literature review	15.0	December 4
Article discussion	10.0	Presentation during the semester (1 per student)
Midterm exam	30.0	October 9
Final exam	30.0	December 4 (unlikely) or December 11 from 5:30-8:00

Problem Sets

Problems will be assigned about one week before the due date (and will be posted in the "Assignments" area of the Blackboard site). You are permitted and encouraged to work together on the problem sets. These problem sets will be marked "plus" (100%), "minus" (60%), or "unacceptable" (0%). Late problem sets will not be accepted. Problem sets must be turned in at the start of the class on the date due. Late problem sets will not be accepted.

Referee report

Academic journals solicit referee reports on manuscripts submitted for publication. Generally, reports are short (2-3 pages), concise, give a brief summary of the article (several sentences), offer criticism/suggestions (the bulk of the report), and advise the editor to publish or reject the article based upon a view about the paper's contribution to the literature. Your report is to have all of these elements and to be no longer than 3 double-spaced pages. You may NOT collaborate on this assignment.

Literature review

A survey of the relevant literature is generally the second section of any academic article (after the introduction). Your dissertation will no doubt contain a review of substantial literature. In this assignment, you will be asked to write a review of no more than 6 double-spaced pages on the topic of central bank independence. You will be given 4 papers upon which to base your review, although you may read/reference other related articles if you choose. You may NOT collaborate on this assignment.

Article discussion

At conferences, a discussant provides brief commentary on a paper. In this assignment, each student will discuss an assigned article for about 10 minutes during class time. You may, but are not required to, use Powerpoint for your presentation. You may NOT collaborate on this assignment.

Class policies

Make-up tests (exams & quizzes)	Not given, except for absences caused by an unavoidable medical or family situation that can be documented and verified.
AU's Academic Integrity Code	In effect at all times. No plagiarism, no submitting work that is not your own, no violations of any kind. Violations will be prosecuted!
Blackboard	It is your responsibility to configure your email properly so that you can receive email messages from Blackboard about this course.
Ipods, cell phones, other similar electronic devices	Not in use at ANY time during class. If a student is found in violation of this rule, he or she will be asked to leave the class on that day.

Course outline & schedule (readings marked with * or ** are required; an ** denotes that the reading is easier and may provide a helpful introduction)

It is advisable to read through the assigned materials prior to their discussion in class, and then to study them more carefully after the class.

I. Introduction & Classical Model (2 classes)

*Galí, chapters 1 & 2 (excluding section 2.5)

*Romer, chapter 10, pp. 496-501

II. Seigniorage & Hyperinflation (1-2 classes)

*Romer, sections 10.8 - 10.9, pp. 538-552

**Blanchard, chapter 23

*Stanley Fischer (1982), "Seigniorage and the Case for a National Money," *Journal of Political Economy* 90, pp. 295-313

*Milton Friedman (1971), "Government Revenue from Inflation," *Journal of Political Economy* 79, pp. 846-856

Thomas J. Sargent (1982), "The Ends of Four Big Inflations," in R. Hall, ed., *Inflation*, Chicago: University of Chicago Press, pp. 41-97

III. Term Structure, Expectations Hypothesis, & Communication (1-2 classes)

*Romer, sections 10.1 - 10.2, pp. 497-505

Blanchard, chapter 15, pp. 314-322

Timothy Cook and Thomas Hahn (1989), "The Effect of Changes in the Federal Funds Rate Target on Market Interest Rates in the 1970s," *Journal of Monetary Economics* 24, pp. 331-351

*Kenneth N. Kuttner (2001), "Monetary Policy Surprises and Interest Rates: Evidence from the Fed Funds Futures Market," *Journal of Monetary Economics* 47, pp. 523-544

*Christina D. Romer and David H. Romer (2000), "Federal Reserve Information and the Behavior of Interest Rates," *American Economic Review* 90, pp. 429-457

IV. Political Business Cycles (2 classes)

*Romer, sections 11.5 - 11.6, pp. 579-592

Blanchard, chapter 24, section 24-3

*Daron Acemoglu, Simon Johnson, Pablo Querubín, and James A. Robinson (2008), "When Does Policy Reform Work? The Case of Central Bank Independence," NBER working paper #14033

Alberto Alesina (1987), "Macroeconomic Policy in a Two-Party System as a Repeated Game," *Quarterly Journal of Economics* 102, pp. 651-678

*Allan Drazen (2000), *Political Economy in Macroeconomics*, Princeton University Press, sections 7.2 - 7.4, pp. 228-258

**Ray Fair (1996), "Econometrics and Presidential Elections," *Journal of Economic Perspectives* 10, pp. 89-102

V. Time Inconsistency (2 classes)

*Romer, sections 10.3 - 10.4, pp. 506-520

Blanchard, chapter 24, section 24-2

*(sections 1-8) Robert Barro and David Gordon (1983), "Rules, Discretion, and Reputation in a Model of Monetary Policy," *Journal of Monetary Economics* 12, pp. 101-122

Alex Cukierman and Stefan Gerlach (2003), "The Inflation Bias Revisited: Theory and Some International Evidence," *The Manchester School* 71, pp. 541-565

*(pp. 473-480) Finn Kydland and Edward Prescott (1977), "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy* 85, pp. 473-490

VI. The New Keynesian Model (1 class)

*Galí, chapter 3

VII. Monetary Policy Rules & Inflation Targeting (2-3 classes)

*Galí, chapter 4

**Romer, section 10.6, pp. 525-533

Blanchard, chapter 25

**Ben S. Bernanke and Frederic S. Mishkin (1997), "Inflation Targeting: A New Framework for Monetary Policy?" *Journal of Economic Perspectives* 11, pp. 97-116

*Lars E.O. Svensson (1997), "Inflation Forecast Targeting: Implementing and Monitoring Inflation Targets," *European Economic Review* 41, pp. 1111-1146

**John Taylor (1993), "Discretion versus Policy Rules in Practice," *Carnegie-Rochester Conference Series on Public Policy* 39, pp. 195-214

VIII. Transparency (selected pages from these readings to be assigned if we have time)

Petra Geraats (2002), "Central Bank Transparency," *Economic Journal* 112, F532-F565

Stephen Morris and Hyun Song Shin (2002), "The Social Value of Public Information," *American Economic Review* 92, pp. 1521-1534