

BOSTON COLLEGE
SCHOOL OF MANAGEMENT

EC 364 / MF 364
Fall 2003
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 16 (25%) and a final exam on December 16 (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. 2 – Course introduction

Sept. 4 – 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. 9 – 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. 11 – 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. 16 – The structure of the Federal Reserve

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

Sept. 18 – 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. 23 – 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. 25 – 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.

Sept. 30 – 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.

Oct. 2 – 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. 7 - 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. 9 – 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. 14 – 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. 16 – MID-TERM EXAM

FISCAL POLICY AND THE BUDGET

Oct. 21 – What is the outlook for fiscal policy?

“The Budget and Economic Outlook Summary,” Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2004-2013.*, January 2003.

“CBO’s Economic Projections for 2003 Through 2013,” Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2004-2013, Appendix E.*, January 2003.

“How Changes in Assumptions Can Affect Budget Projections” Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2004-2013 Appendix C.*, January 2003.

“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. 23 – President Bush’s Tax Cut

Gale, William, and Alan Auerbach, “Tax Cuts and the Budget Outlook” *Brookings Institution Policy Brief* no. 76, April 2001.

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

Friedman, Joel, Richard Kogan, and Denis Kadochnikov, “Administration’s Tax Cutting Agenda Would Cost \$2.7 trillion Through 2013,” *Center on Budget and Policy Priorities*, March 7, 2003.

Oct. 28 – 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.

Oct. 30 – Do 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. 4 – What about the distribution of income?

U.S. Department of Commerce, Bureau of the Census, *Money Income in the United States: 2001*, pp. vii-xxii.

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

Nov. 6 – What about the distribution of wealth?

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

Edward Wolff, “Recent Trends in the Wealth Ownership, 1983-1998,” Jerome Levy Economics Institute, April 2000

Nov. 11 - 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.

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

Nov. 13 – Outlook for the Federal Tax System (continued)

Auerbach, Alan J., William G. Gale, Peter R. Orszag, and Samara R. Potter, “Budget Blues: The Fiscal Outlook and Options for Reform,” The Urban Institute, May 2003. pp. 16-34. At the Urban-Brookings Tax Policy Center website: www.taxpolicycenter.org or at: http://www.urban.org/UploadedPDF/310778_TPC_DP10.pdf

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

Nov. 18 – What are tax expenditures?

“Tax Expenditures” in *Budget of the United States Government Fiscal Year 2002: Analytical Perspectives*, pp. 61-93.

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. 20 – The outlook for entitlement reform: Social Security

Fast Facts & Figures about Social Security: 2001, Office of Research and Statistics, Social Security Administration.

Status of the Social Security and Medicare Programs: A Summary of the 2002 Annual Reports. 2002. 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

Nov. 25 – The outlook for entitlement reform: Social Security (continued)

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

Andrew A. Samwick, “Social Security in the United States” *National Tax Journal*. LII (4). December 1999.

Nov. 27 – THANKSGIVING BREAK, no classes

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

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

Diamond, Peter, and Peter Orszag “Reducing Benefits and Subsidizing Individual Accounts: An Analysis of the Plans Proposed by the Presidents Commission to Strengthen Social Security” *Center on Budget and Policy Priorities* and *The Century Foundation*, June 2002

Dec. 4 – 9 – The outlook for entitlement reform: Medicare

Marilyn Moon, “Medicare Matters: The Value of Social Insurance” *Testimony before the Senate Finance Committee*, May 1999

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.

Tues., Dec. 16, 12:30pm – FINAL EXAM