

BOSTON COLLEGE
Department of Economics

EC 304 Macroeconomic Policy
Fall 2002
Class: T & Th 10:30 Fulton 423
<http://www2.bc.edu/~murphyro>

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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 economic data and analytical models. We also will examine the historical record of policymaking and develop an understanding of its ability as well as its limitations for stabilizing the economy. 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. I also suggest that you obtain a copy of Macroeconomics, by N. Gregory Mankiw, for use as a background reference. You are required to follow the economic news of the day either in the Wall Street Journal or New York Times. With the economy on the precipice of a double-dip recession, the news will be filled with details and debate about the economic policies of both the Bush Administration and Federal Reserve.

Course Requirements: Students are expected to attend all classes and participate in discussions. Starting in the second week of class and continuing throughout the semester, a brief (1-2 page) writing assignment will be due each week. Many of these assignments will ask you to assess the current state of the economy. 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 1998. 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.

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 links to various materials will be posted.

Due Dates: Weekly assignments will be due on Tuesdays. The first assignment will be due on Tuesday, September 10, and an assignment will be due approximately each week thereafter through November 12 (for a total of 10 assignments). A first draft of the longer paper will be due November 19. I will return the paper to you with comments by the following week and you will then revise the paper and submit a final version on December 10, our last 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, 2002, Chapters 9-13, or an equivalent intermediate-level textbook.

2. Overview of the Macroeconomic Situation in the United States.

Economic Report of the President, 2002, Government Printing Office, January 2002, selected chapters. (Internet)

Latest “Beige Book” from the Federal Reserve (Internet).

3. Understanding Domestic and International 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, 2002, (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. Please also read the comments by the discussants of the Solow and Taylor chapters.

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.

The Budget and Economic Outlook: Fiscal Years 2003-2012, Congressional Budget Office, January 2002.

The Budget and Economic Outlook: An Update, Congressional Budget Office, August 2002.

The Budget Outlook: Options for Restoring Fiscal Discipline, William Gale and Peter R. Orszag, Brookings Institution Policy Brief #100, June 2002.

The Bush Tax Cut: One Year Later, William Gale and Samara R. Potter, Brookings Institution Policy Brief #101, June 2002.

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

9. Tax Cuts and Inflation

“Fiscal Policy and Inflation,” Betty C. Daniel, Economic Letter, Federal Reserve Bank of San Francisco, July 13, 2001.

10. Macroeconomic Aspects of Social Security Reform

Social Security Trustees Report 2002, Social Security Administration.

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

How Would Financial Risk Affect Retirement Income Under Individual Accounts?
Gary Burtless, 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, Journal of Economic Perspectives, Fall 2000.

“Information Technology and the U.S. Economy,” Dale W. Jorgenson, American Economic Review, March 2001.

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. International Aspects of Macroeconomic Policymaking

14. International Policy Coordination

Macroeconomics, N.Gregory Mankiw, Chapters 6 and 12.

“Macroeconomic Policy Coordination Among Industrial Economies,” G. Oudiz and J. Sachs, Brookings Papers on Economic Activity, 1, 1984.

15. Monetary Union

Mundell, R., “A Theory of Optimum Currency Areas,” American Economic Review, September 1961: 657-65.

Mundell, R., "Capital Mobility and Stabilization Policy Under Fixed and Flexible Exchange Rates," Canadian Journal of Economics and Political Science, November 1963: 475-85.

VI. Insights into Contemporary Policymaking

16. 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.

17. 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.