

**University of Kansas  
Department of Economics**

**Economics 701  
Survey of Macroeconomics**

**Spring 2023  
Professor Keating**

**Office:** 334 Snow Hall

**Zoom Office Hours:** Mondays and Wednesdays: 12:45-2:45 pm.

Zoom instructions are being sent to you by email

Otherwise I am available by appointment, also on Zoom.

**Web Page:** <http://www.people.ku.edu/~jkeating>

where there is a link to Econ 701 course materials, under Spring 2023 courses

**Phone:** (913)864-2837

**E-mail:** [jkeating@ku.edu](mailto:jkeating@ku.edu)

**Purpose of this Course:** This course investigates economic growth, business cycles, and macroeconomic policy at the Masters level. Compared to undergraduate macro courses we will make more use of quantitative methods (like calculus, though we leave the more complicated tools of dynamic optimization to PhD-level courses). Also, the analytical level of this course is broader in scope and deeper in content than would be found in undergraduate courses that cover related topics.

**Readings:** There is not really a required text for this course. I don't teach Econ 701 directly from any particular book. The course does, however, investigate many topics examined in the 8<sup>th</sup> edition of *Macroeconomics* by Olivier Blanchard (Pearson, 2021). This text is denoted by B and chapter numbers in the Readings below. I use "Apn" and a letter or number to reference an appendix. Blanchard is a modern textbook, that studies a wide range of interesting sometimes sophisticated topics. (Previous editions of this book were co-authored with David Johnson. These would also be useful for this course, although the section numbers and homework questions might not be the same in earlier editions.)

The primary limitation of Blanchard's text is the depth of coverage on economic growth. For that material I like the 3<sup>rd</sup> edition of *Introduction to Economic Growth* (Norton, 2013) by Charles Jones and Dietrich Vollrath. This text provides an excellent introduction to the theory and the empirical evidence on growth. David Weil's 3<sup>rd</sup> edition of *Economic Growth* (Routledge, 2013), is also a very good text on growth. While much less advanced on the theory than Jones, Weil covers the empirical evidence quite well.

Useful readings are also from David Romer's [Short-Run Fluctuations \(2018\)](#). This unpublished document can be obtained by clicking on the title. These notes provide a simple yet very well-written version of a popular modern way of modeling the way monetary policy works in a modern macroeconomy. I believe this approach is a significant improvement over the traditional analysis (IS-LM). There now are some texts that follow Romer's lead (although this seems to have only happened when a text's first edition came out in the 21<sup>st</sup> Century). Romer's notes also provide a nice discussion of what happens when nominal interest rates hit their lower bound (the so-called liquidity trap), something which many economies experienced as a result of the Great Recession and Covid's effects on the economy. And these notes develop a simple but useful model of the way financial markets affect the macroeconomy. These chapters help to provide a good understanding of our recent world economic crisis and the Great Depression.

I highly recommend reading the *Wall Street Journal* on a regular basis. The WSJ is one of the best daily sources of current information on economic matters of all kinds. Its coverage of macro stories gives you an opportunity to see how theories actually play out in the real world. I anticipate some test questions will be motivated by current events. The *Economist* magazine and the *New York Times* are also excellent sources of current macroeconomic information. Any of these readings would be optional.

Below I provide a rather large list of additional readings. Some of these are chapters in other books. Most of the other listed additional readings are journal articles that are easily downloaded by going

to the syllabus on my Web page and clicking on the relevant document(s). I will make clear whenever an additional reading is required. Few if any of those will be required, but you might find them interesting now or at some time in the future.

**Homework** is assigned with some regularity. These questions are based primarily on material from readings and from class. Your answers are NOT collected. But I will provide solutions. **It is very important to put in a good effort on homework BEFORE you examine the solutions!** Some exam questions will be related to these homework questions, although rarely, if ever, will they be the same. Other exam questions are derived from the material in the lectures.

**My Web Page:** On my web page, <http://www.people.ku.edu/~jkeating/>, you will find a link to this course (Econ 701) on which you'll find a copy of this Syllabus and other information for this course. I will generally use the web page to this course to distribute important course materials (e.g. homework assignments, solutions to homework questions that I write). However, if there is something that I don't wish to make public or am not allowed to make public, I will use Canvas (lecture notes that contain graphs from texts and the solutions to text homework questions, for example). I do not post grades on Canvas.

**EXAM SCHEDULE:**

<b>FIRST MIDTERM:</b>	<b>Wednesday February 22, in class</b>
<b>SECOND MIDTERM:</b>	<b>Wednesday, April 5, in class</b>
<b>FINAL:</b>	<b>Tuesday, May 9, 11 am to 1 pm, in this classroom</b>

**Grading:** Each test is worth 150 course points.

**Exam Policies:** Excused exam absences are given only under justifiable circumstances and permission must be obtained from me prior to the scheduled exam period, if that is at all possible. Under most circumstances, you should at least be able to call my office and leave a message on my voice-mail saying why you are unable to take the test at the scheduled time. (My office phone number is given at the top of the syllabus) The letter grade for one excused mid-term absence will be the same as your letter grade on the final exam. Unexcused absences earn 0 points.

**Examination rules:**

- (1) Closed-book tests;
- (2) If you believe there is some error in your grade, but you answered in pencil or anything else that is erasable, your test will not be eligible for re-grading;
- (3) Calculating devices of ANY KIND are NOT permitted during tests; and
- (4) Cheating on tests will be punished to the fullest extent allowable at KU.

## COURSE OUTLINE

## TEXT READINGS

### 1. INTRODUCTION TO MACROECONOMICS:

B:1,2,14-1, Apr:1,2

Diamond, Jared; *Guns, Germs, and Steel: The Fates of Human Societies*, Norton 1997

Clark, Gregory; *A Farewell to Alms: A Brief Economic History of the World*, Princeton, 2007

Cochran, Gregory; Harpending, Henry; *The 10,000 Year Explosion: How Civilization Accelerated Human Evolution*, Basic Books, 2009

Woodford, Michael; [“Revolution and Evolution in Twentieth-Century Macroeconomics”](#) 1999 Working Paper version of publication in: *Frontiers of the Mind in the 21<sup>st</sup> Century*

Chapter 1: [Macroeconomics Lecture Notes for a Masters Course](#), Gregor Smith, unpublished, 2000

Steindel, Charles; [“Chain-Weighting: The New Approach to Measuring GDP”](#) *Current Issues in Economics and Finance*, New York Federal Reserve Bank, 1995

Landefeld, J. Steven; Seskin, Eugene P.; Fraumeni, Barbara M.; [“Taking the Pulse of the Economy: Measuring GDP.”](#) *Journal of Economic Perspectives*, 2008

Nordhaus, William D. “Principles of National Accounting For Non-Market Accounts” In *A New Architecture for the US National Accounts*, ed. Dale W. Jorgenson, Steven Landefeld and William D. Nordhaus, University of Chicago Press, 143-60. (If interested, search for author and title and then read either the Word Doc of Nordhaus or what is found at books.google.com)

Stock, James; Watson, Mark; [“Business Cycle Fluctuations in U.S. Macroeconomic Time Series”](#), 1998 NBER (National Bureau of Economic Research) Working Paper version of the paper that is published in the *Handbook of Macroeconomics* (1999)

Basu, Susanto; Taylor, Alan M.; [“Business Cycles in International Historical Perspective”](#) *The Journal of Economic Perspectives*, 1999

Romer, Christina; [“Changes in Business Cycles: Evidence and Explanations”](#) *The Journal of Economic Perspectives*, Spring 1999, 23-44

Blanchard, Olivier; Simon, John; [“The Long and Large Decline in U.S. Output Volatility”](#) *Brookings Papers on Economic Activity*, 2001

Stock, James; Watson, Mark; [“Has the Business Cycle Changed? Evidence and Implications”](#) in *Monetary Policy and Uncertainty*, Kansas City Federal Reserve Bank’s 2003 Symposium

Fleurbaey, Marc (2009) “Beyond GDP: The Quest for a Measure of Social Welfare” *Journal of Economic Literature* 47:4, December, 1029-75

Keating J. & V. Valcarcel (2017) [“What’s so great about the Great Moderation?”](#) *Journal of*

**2. ECONOMIC GROWTH:**

**B:10,11,12,13**

Jones and Vollrath, *Introduction to Economic Growth*, 3<sup>rd</sup> ed. (Norton, 2013).

Weil, David N.; *Economic Growth*, 3<sup>rd</sup> ed. (Routledge, 2013)

Lin, Justin Yifu *The Quest for Prosperity: How Developing Economies Can Take Off* (Princeton, 2012)

Acemoglu, Daron; Robinson, James; *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (Crown Business, 2012)

Gordon, Robert J. *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*, Princeton University Press, 2016

Gordon, Robert J.; [“Is U.S. Economic Growth Over? Faltering Innovation Confronts the Six Headwinds.”](#) NBER Working Paper No. 18315, 2012

Jones, Charles I.; Romer, Paul M.; [“The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital”](#) *American Economic Journal: Macroeconomics*, 2010

David, Paul A.; [“The Dynamo and the Computer: An Historical Perspective on the Modern Productivity Paradox”](#) *The American Economic Review*, 1990

Cowen, Tyler; *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better*, Penguin/Dutton Publishing, 2011.

Erik Brynjolfsson and Andrew McAfee. *Race Against The Machine: How the Digital Revolution is Accelerating Innovation, Driving Productivity, and Irreversibly Transforming Employment and the Economy*, an e-book available from various sources (including Kindle), 2013

Golden, Claudia; Katz, Lawrence F.; *The Race between Education and Technology*, Harvard University Press, 2010

Golden, Claudia; Katz, Lawrence F.; [“The Race between Education and Technology: The Evolution of U.S. Educational Wage Differentials, 1890 to 2005.”](#) NBER Working Paper No. 12984

Boldrin, Michele; Levine, David K. (2013) [“The Case against Patents”](#) *Journal of Economic Perspectives*, 3-22. Also available as: [“Federal Reserve Bank of St. Louis Working Paper #2012-035A”](#)

Aghion, Philippe; Howitt, Peter; *The Economics of Growth*, MIT Press, 2009, Chapters 1 and 4.

Restuccia, Diego, and Richard Rogerson. 2017. [“The Causes and Costs of Misallocation.”](#) *Journal of Economic Perspectives*, 31 (3): 151-74.

Oliner, Steven; Sichel, Daniel; [“Resurgence of Growth in the Late 1990s: Is IT the Story?”](#) , *Journal of Economic Perspectives*, 2000

Jorgenson, Dale W.; Ho, Mun S.; Stiroh, Kevin J.; ["A Retrospective Look at the U.S. Productivity Growth Resurgence,"](#) *Journal of Economic Perspectives*, 2008

David M. Byrne, John G. Fernald, & Marshall Reinsdorf (2016) [“Does the United States have a productivity slowdown or a measurement problem?”](#) Brookings Papers on Economic Activity, 2016

Philippe Aghion, Céline Antonin, and Simon Bunel (2021) *The Power of Creative Destruction: Economic Upheaval and the Wealth of Nations*, Harvard University Press.

### **3. GOODS MARKETS:**

**B:3,15,16**

Friedman, Milton; *A Theory of the Consumption Function*, Princeton University Press, 1957

Ando, Albert; Modigliani, Franco; [“The "Life Cycle" Hypothesis of Saving: Aggregate Implications and Tests”](#), *American Economic Review*, 1963

Hall, Robert E.; Jorgenson, Dale W.; [“Tax Policy & Investment Behavior”](#) *American Economic Review*, 1967

Hubbard, R. Glenn; [“Capital Market Imperfections and Investment”](#) *Journal of Economic Literature*, Vol. 36, no. 1, March 1998, (also available as [NBER WP # 5996](#))

Bernanke, Ben; Blinder, Alan; [“Credit, Money and Aggregate Demand,”](#) *American Economic Review*, 1988

Baily, Martin Neil, and Barry P. Bosworth. 2014. ["US Manufacturing: Understanding Its Past and Its Potential Future."](#) *Journal of Economic Perspectives*, 28 (1): 3-26.

### **4. MONEY & FINANCIAL MARKETS:**

**B:4**

DeLong, J. Bradford; [“The Triumph of Monetarism?,”](#) *The Journal of Economic Perspectives*, 2000

[“Monetary Policy since the Onset of the Crisis,”](#) Ben Bernanke, FRB of KC Symposium, 2012

Barnett, William A.; *Getting it Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy* (MIT Press, 2012)

**5. REPLACING THE LM CURVE WITH THE MP CURVE:**

**B:5,14**

Romer, David; "Short-Run Fluctuations" Chapter 1

Romer, David; "[Keynesian Macroeconomics without the LM Curve.](#)" *Journal of Economic Perspectives*, 2000

Carlstrom, Charles; Fuerst, Timothy; "[The Taylor Rule: A Guidepost for Monetary Policy?](#)" *Economic Commentary*, Cleveland Federal Reserve Bank, 2003

Taylor, John B.; "[Discretion Versus Policy Rules in Practice](#)" *Carnegie-Rochester Conference Series on Public Policy*, 1993

**6. LABOR MARKETS:**

**B:7**

Autor, David H. 2015. "[Why Are There Still So Many Jobs? The History and Future of Workplace Automation.](#)" *Journal of Economic Perspectives*, 29 (3): 3-30.

Autor, David H. "Work of the Past, Work of the Future" (click on the webcast link at: <https://www.aeaweb.org/conference/webcasts/2019> , American Economic Review, 2019 (The Richard T. Ely Lecture)

**7. THE AGGREGATE SUPPLY & AGGREGATE DEMAND MODEL:**

**B:8,9**

Romer, David; "Short-Run Fluctuations" Chapter 3

Dickens, William T.; Goette, Lorenz; Groshen, Erica L.; Holden, Steinar; Messina, Julian; Schweitzer, Mark E.; Turunen, Jarkko; Ward, Melanie E.; "[How Wages Change: Micro Evidence from the International Wage Flexibility Project.](#)" *Journal of Economic Perspectives*, 2007

Nakamura, Emi; Steinsson, Jón; "[Price Rigidity: Microeconomic Evidence and Macroeconomic Implications.](#)" NBER Working Paper No. 18705

Akerlof, George A.; Shiller, Robert J.; *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*, Princeton, 2009

**8. THE PHILLIPS CURVE, INFLATION, AND  
THE NATURAL RATE OF INTEREST:**

**B:24-2**

Friedman, Milton "[The Role of Monetary Policy](#)" *American Economic Review*, 1968

Blanchard, Olivier. 2018. "[Should We Reject the Natural Rate Hypothesis?](#)" *Journal of Economic Perspectives*, 32 (1): 97-120.

Laubach, Thomas, and Williams, John C. "[Measuring the Natural Rate of Interest](#)" *The Review of*

*Economics and Statistics*, 2003

Hanke, Steve H.; Krus, Nicholas; ["World Hyperinflations"](#) CATO Institute Working Paper, 2012

**9. FINANCIAL CRISIS AND MACROECONOMIC OUTCOMES: B:6**

Romer, David; "Short-Run Fluctuations" Chapter 4, 5

Rajan, Raghuram G. ["Has Financial Development Made the World Riskier?."](#) Proceedings from a Symposium, Federal Reserve Bank of Kansas City, 313-369, August 2005

Woodford, Michael; ["Financial Intermediation and Macroeconomic Analysis"](#) *Journal of Economic Perspectives*, 2010

Ben Bernanke's four-part lecture on: [The Federal Reserve and the Financial Crisis](#), slides and video are available for each part

Blinder, Alan *After the Music Stopped: The Financial Crisis, the Response and the Work Ahead* (Penguin, 2014)

Bernanke, Ben S.; *Essays on The Great Depression*, Princeton University Press. 2000

Calomiris, Charles W.; ["Financial Factors in the Great Depression"](#) *The Journal of Economic Perspectives*, 1993

Bullard, James; Neely, Christopher J.; Wheelock, David C.; ["Systemic Risk and the Financial Crisis: A Primer."](#) *Federal Reserve Bank of St. Louis Review*, 2009

Mishkin, Frederic S.; ["Over the Cliff: From the Subprime to the Global Financial Crisis."](#) *Journal of Economic Perspectives*, 2011

Mishkin, Frederic S.; ["Monetary Policy Strategy: Lessons from the Crisis"](#) NBER Working Paper 16755, 2011

Mishkin, Frederic ["The Causes and Propagation of Financial Instability: Lessons for Policymakers"](#) in *Maintaining Financial Stability in a Global Economy*, Kansas City Federal Reserve Bank's 1997 Symposium

Brunnermeier, Markus K.; ["Deciphering the Liquidity and Credit Crunch 2007-2008"](#), *Journal of Economic Perspectives*, 2009

Blanchard, Olivier; Dell'Ariccia, Giovanni; Mauro, Paolo; ["Rethinking Macroeconomic Policy"](#) *IMF Position Note*, 2010

Ball, Laurence, *Money and Banking*, Worth Publishing:

Chapter 3: "Asset Prices and Interest Rates" (available on Canvas)

Chapter 18: "Financial Crises" (available on Canvas)

Volcker, Paul; [“How to Reform Our Financial System”](#), *NY Times Op-Ed*, Jan 30, 2010

Reinhart, Carmen M.; Rogoff, Kenneth S.; *This Time is Different: Eight Centuries of Financial Folly*, Princeton University Press, 2009

Krugman, Paul; *The Return of Depression Economics and The Crisis of 2008*, Norton, 2009

Kindleberger, Charles P.; Aliber, Robert; *Manias, Crashes and Panics: A History of Financial Crises*, Wiley Press, 2005

## **10. EXPECTATIONS & ECONOMIC ADJUSTMENTS:**

**B:16**

Chapter 8: *Monetary Economics: Theory and Policy*, Ben McCallum, MacMillan, 1989

Chapter 3: [Macroeconomics Lecture Notes for a Masters Course](#), Gregor Smith, 2000

[“A Guide to FRB/US: A Macroeconomic Model of the United States”](#), working paper from the Board of Governors of the Federal Reserve System (various authors), 1996

## **11. A DEEPER LOOK AT MONETARY & FISCAL POLICY:**

**B:21,22,23**

### **\* Monetary Policy**

Bernanke, Ben S. (2022) *21st Century Monetary Policy: The Federal Reserve from the Great Inflation to COVID-19*, Norton Publishing.

Bernanke, Ben S. (2020) [“The New Tools of Monetary Policy”](#) American Economic Association Presidential Address

[“Rethinking the Fed’s 2 percent inflation target”](#) Hutchins Center conference on Fiscal & Monetary Policy, Brookings Institution

Gali, Jordi; Gertler, Mark; [“Macroeconomic Modeling for Monetary Policy Evaluation.”](#) *Journal of Economic Perspectives*, 2007

Fischer, Stanley; [“Why Are Central Banks Pursuing Long-Run Price Stability?”](#) in *Achieving Price Stability*, Kansas City Federal Reserve Bank’s 1996 Symposium.

Bernanke, Ben; Mishkin, Frederick; [“Inflation Targeting: A New Framework for Monetary Policy?”](#), *Journal of Economic Perspectives*, 1997

[Chapter 2](#) “The Rationale for Inflation Targeting”, in *Inflation Targeting*, Ben S. Bernanke, Thomas Laubach, Frederic S. Mishkin & Adam Posen, 2001

Bernanke, Ben; Gertler, Mark; [“Monetary Policy and Asset Price Volatility.”](#) in *New Challenges*



for Monetary Policy, Kansas City Federal Reserve Bank's 1999 Symposium

Wessel, David; *In FED We Trust: Ben Bernanke's War on the Great Panic*, Crown, 2009

Meyer, Laurence H.; *A Term at the Fed: An Insider's View*, (HarperBusiness, 2004)

**\* Fiscal Policy**

“Macroeconomics of Austerity” (2014 AEA Meetings session): James Poterba (moderator); Olivier Blanchard; Hans-Werner Sinn; Lawrence Summers: <https://www.aeaweb.org/webcasts/2014/index.php>

“Public Debt and Low Interest Rates” AEA Presidential Address by Olivier Blanchard: <https://www.aeaweb.org/conference/webcasts/2019> , [Working Paper](#)

Lawrence H. Summers, "Secular Stagnation and Monetary Policy," Federal Reserve Bank of St. Louis Economic Review, Second Quarter 2016, pp. 93-110.

[“Retirement Security in an Aging Economy”](#) James M. Poterba, NBER Working Paper 19930.

Auerbach, Alan [“Fiscal Policy, Past and Present.”](#) *Brookings Papers on Economic Activity*, 2003

Ball, Laurence; Mankiw, N. Gregory; [“What Do Budget Deficits Do?.”](#) in *Budget Deficits and Debt: Issues and Options*, Kansas City Federal Reserve Bank's 1995 Symposium

**12. OPEN ECONOMY MACROECONOMICS:**

**B:17,18,19,20**

Romer, David “Short-Run Fluctuations” Chapter 2

Mishkin, Frederick [“Global Financial Instability: Framework, Events, Issues”](#), *Journal of Economic Perspectives*, 1999

Hummels, David ["Transportation Costs and International Trade in the Second Era of Globalization,"](#) *Journal of Economic Perspectives*, 2007

Rose, Andrew K. 2011. ["Exchange Rate Regimes in the Modern Era: Fixed, Floating, and Flaky."](#) *Journal of Economic Literature*, 49 (3): 652-72