

Department of Economics
Barnard College
Fall 1998

Economics BC 3063: Topics in Economic Theory

Two Contraversial Theories in Macroeconomics:

The Phillips Curve & the NAIRU; Real Business Cycle Theory

Professor Sharon G. Harrison

Course description: By its nature, macroeconomics is controversial. There are no universally accepted theories of how an economy works. The goal of this course is to gain a deeper understanding of the disagreements that exist among economists regarding some of these theories. In an attempt to resolve these disagreements in our own way, we will supplement the theoretical analysis with our own empirical work. First we will examine the idea that a short run trade-off between inflation and unemployment exists; and that there is a level of unemployment below which inflation starts to accelerate. Given the state of today's economy, this is an especially fitting topic to consider. Next, we will study several different theories of short run fluctuations, or business cycles, focussing on one in particular: real business cycle theory. While in the past, these theories stood in sharp contrast to one another, recent research in macroeconomics has integrated ideas from each. You will finish this course with an appreciation for some of the questions that macroeconomists today are struggling to answer.

Class meetings: This class will meet Thursdays from 4:10 to 6:00 pm.

Administrative Information: My office is in Room 7, Lehman Hall and my phone number there is 854-3333. You can also reach me by e-mail at sh411@columbia.edu.

Office Hours: Wednesday, 11-1, and by appointment.

Web Access and Email: It is essential that you have access to the web and email. We will use both throughout the semester. The home page for this course is

<http://econ.barnard.columbia.edu/~sharriso/f983063/>

Evaluation: Given that this class is a seminar, participation by each and every student is essential. Given that it is an upper level course, the readings will consist primarily of journal articles, with some chapters from books assigned as well. Each student will make two presentations over the course of the semester. Each week a team of two or more students will give a presentation on the readings assigned for that week. The presentations will be followed by class discussion. Each student will write one research paper, details to be discussed in class. In addition, each week every student will hand in a short paper based on the readings. Your grade will be based on your class participation (20%) your presentations (30%), your research paper (30%), and your short papers (20%).

Required Reading: Most of the reading for this course will be in the course packets, available at Broadway Copy Center (at 121st; 864-6501). Additional reading may be made available to you for photocopying as the course progresses.

Supplementary Reading: It will be extremely helpful to have at least one intermediate macroeconomics text book to supplement the required readings.

Schedule of Topics (number of students in (.))

* indicates not in course packet

WEEK 1: Sept 10: Introduction and overview; sign-up for presentations

THE PHILLIPS CURVE AND THE NAIRU

WEEK 2: Sept 17 (2): The Phillips Curve

Any Intermediate Macro text.

Fisher, I., 1926, 'A Statistical Relation Between Unemployment and Price Changes,' reprinted as 'I Discovered the Phillips Curve' in the Journal of Political Economy 81, April 1973, 496-502.

Phillips, A., 1958, 'The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957,' *Economica* 25, 283-299.

Presenters will gather their own data.

WEEK 3: Sept 24 (2): The NAIRU

Friedman, M., 1968, 'The Role of Monetary Policy,' *American Economic Review* 58, 1-17.

Rogerson, R., 1997, 'Theory Ahead of Language in the Economics of Unemployment,' *Journal of Economic Perspectives* 11:1, 73-92. **Pages 73-84.**

Stiglitz, 1997, 'Reflections on the Natural Rate Hypothesis' *Journal of Economic Perspectives* 11:1, 3-10. **Pages 5-8.**

Gordon, R., 1997, 'The Time-Varying NAIRU and its Implications for Economic Policy,' *Journal of Economic Perspectives* 11:1, 11-32.

WEEK 4: Oct 1 (2): Tests and Uses of the Phillips Curve and the NAIRU

Rogerson, pages 84-92.

Samuelson, P. and R. Solow, 1960, 'Analytical Aspects of Anti-Inflation Policy,' *American Economic Review* 50:2, 177-194.

Friedman, M., 1977, 'Nobel Lecture: Inflation and Unemployment,' *Journal of Political Economy* 85:3, 451-472.

Stiglitz.

WEEK 5: Oct 8 (2): Skeptics of the Phillips Curve and NAIRU

Galbraith, J., 1997, 'Time to Ditch the NAIRU,' Journal of Economic Perspectives 11:1, 93-108.

Staiger, D., J. Stock and M. Watson, 1997, 'The NAIRU, Unemployment and Monetary Policy,' Journal of Economic Perspectives 11:1, 33-49.

WEEK 6: Oct. 15 (6): Debate

Eisner, R., 1997, 'When Bad Economic Theory Threatens Good Times,' The New York Times Op-Ed Page, Saturday, October 11.

REAL BUSINESS CYCLE THEORY

WEEK 7: Oct. 22 (2): What is a Business Cycle?

Abel, A. and B. Bernanke, 1995, 'Business Cycles,' Chapter 9 in Macroeconomics, Addison-Wesley, 289-315.

*Burns and Mitchell, 1946.

*Gordon, 1986.

Kydland, F. and E. and Prescott, 1990, 'Business Cycles: Real Facts and a Monetary Myth,' Quarterly Review Federal Reserve Bank of Minneapolis, Spring, 3-18. **Pages 8-18, skip any details about the behavior of money.**

Presenters will gather their own data.

WEEK 8: Oct. 29 (2): Historical perspective: "Early" Business Cycle Theory

Any Intermediate Macro text (IS/LM).

Lucas, R.E., 1977, 'Understanding Business Cycles,' Carnegie Rochester Series on Public Policy, 7-29.

Hicks, J.R., 1937, 'Mr. Keynes and the Classics: A Suggested Interpretation,' Econometrica 5:2, 147-159.

Kydland and Prescott, pages 3-8.

WEEK 9: Nov 5 (2): Real Business Cycle (RBC) Theory: Overview

Abel and Bernanke, Section 11.1.

Mankiw, N.G., 1997, 'Recent Developments in the Theory of Economic Fluctuations,' Chapter 14 in Macroeconomics, Worth, 385-400. **Pages 385-394.**

Plosser, C., 1989, 'Understanding Real Business Cycles,' Journal of Economic Perspectives 3:3, 51-77. **Pages 51-61.**

WEEK 10: Nov 12 (2): RBC theory: The Model

Plosser, Appendix.

Prescott, E., 1986, 'Theory Ahead of Business Cycle Measurement,' Federal Reserve Bank of Minneapolis Quarterly Review 10(4), 9-22. **Pages 9-14.**

Cooley, T. and E. Prescott, 1995, 'Economic Growth and Business Cycles,' Chapter 1 in Frontiers of Business Cycle Research, T, Cooley ed., 1-38. **Pages 1-26, skip pages 20-22.**

WEEK 11: Nov 19 (2): RBC theory: its Predictions, Possible Modifications

Cooley and Prescott, pages 20-22 and 26-38.

Prescott, pages 14-22.

Plosser, pages 61-71.

Stadler, G., 1994, 'Real Business Cycles,' Journal of Economic Literature XXXII, 1750-1783. **Pages 1750-1766.**

WEEK 12: Nov 26: No class: Thanksgiving

WEEK 13: Dec 3 (2): Skeptics of RBC Theory

Mankiw, N.G., 1989, 'Real Business Cycles: A New Keynesian Perspective,' Journal of Economic Perspectives 3:3, 79-90.

Stadler, pages 1766-1783.

Summers, L., 1986, 'Some Skeptical Observations on Real Business Cycle Theory,' Federal Reserve Bank of Minneapolis Quarterly Review 10(4), 23-27.

WEEK 14: Dec. 10 (4): Debate

Prescott, E., 1986 'Response to a Skeptic,' Federal Reserve Bank of Minneapolis Quarterly Review 10(4), 28-33.