

WWS 593k: Macroeconomic Analysis (Advanced)

Fall 2006

Wednesday 1:00-4:00, 01 Robertson Hall

Syllabus 1.1

Students are encouraged to buy Jones (2002) and start section I's readings before the first class.

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Overview

This course covers topics in macroeconomic theory and policy. It presumes knowledge of the content of WWS 512c, or at least good undergraduate mathematical courses in intermediate macroeconomics, calculus and econometrics. The focus of the course is on domestic policy rather than international policy. The latter is the focus of WWS 593l. However, 'domestic' does not imply 'U.S.' And the present course will still consider international factors in domestic policymaking. The course also does not address issues in monetary policy, as these are covered in other courses.

More generally, this course is about understanding three things. First, how should one run an economy? Second, how does one analyze macroeconomic policy questions from a rigorous economic point of view? A strong understanding of this problem-solving approach will allow you to react to an ever-changing world. Finally, the course provides an understanding of the tools and language of modern macroeconomics as preparation for continued learning in your professional careers.

The Technical Details

There is a course web page maintained for the course on Princeton's blackboard system: https://blackboard.princeton.edu/pucourse/WWS593K_F2006. Course documents will be distributed through this means as well as in class.

Problem Sets

There will be problem sets handed out in weeks 2, 3, and 4, due in class in weeks 3, 4, and 5. They can be worked out in groups. One's own problem answers however should be in one's own words and everyone in a group should work on all problems.

In-class presentation and policy papers:

During weeks 3-6, several students will give a presentation stimulated by the discussion reading(s) for the previous week. The presentation is allotted 15 minutes and general discussion will follow for 20 minutes. The presentation and discussion should focus on what we learn from the reading about macroeconomic policies. The best presentations argue a policy or perspective, and draw from articles, experience, or knowledge beyond those assigned for the course. Discussions need not agree with the assigned discussion article.

Precepts:

There are weekly precepts, time and location TBA in which problem sets and material covered in class are reviewed.

Grading and Exams:

There will be a final exam during the precept time in week 6. Grades are calculated as 50% final exam grade, 30% problem sets, and 20% in-class presentation and participation. Grades for problem sets are based solely on being turned in on-time and being complete, and not on being correct. Grades can be appealed in writing only. If a student submits a written statement detailing how he/she has been mis-graded, this and the work in question will be irreversibly re-graded.

Course Outline (Most readings are hyperlinked to the actual article)

I. Week 1 (9/20) and Week 2 (9/27), Policies for economic growth and development

Jones, Charles: [Introduction to Economic Growth](#), 2nd edition, W.W. Norton and Co. 2002, Chapters 1-3 are review from 512c. Read chapters 4-8 and 10.

[Economic Report of the President 2000](#), Chapter 3 or [Economic Report of the President 2005](#), Chapter 6 and review by Farrell in Farrell, Joseph, Jonathan Gruber, Robert E. Hall, Gordon H. Hanson and Joel Slemrod, "Reviews of the 2005 Economic Report of the President," *Journal of Economic Literature*, Vol 43. No 3. Sept 2005 (henceforth "JEL review").

[Acemoglu, Daron, Simon Johnson and James A. Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation,"](#) *The American Economic Review*, Vol. 91, No. 5. (Dec., 2001), pp. 1369-1401.

Acemoglu, Daron, Simon Johnson and James A. Robinson, "Reversal of Fortune:

Geography and Institutions in the Making of Modern World Income Distribution,” *Quarterly Journal of Economics*, Vol. 117, No. 4. (Nov. 2002), pp. 1231-1294.

Presentation topic: Policies for innovation and growth: [Economic Report of the President 2006](#), chapter 10; Dani Rodrik, “[Growth Strategies](#),” in [Handbook of Economic Growth](#), Phillipe Aghion and Steven Durlauf eds., Elsevier, 2005.

II. Week 3 (10/4), Macroeconomics and taxation:

[Summers, Lawrence H., "Capital Taxation and Accumulation in a Life Cycle Growth Model," American Economic Review, 71\(4\), September 1981.](#)

Laurence Ball & N. Gregory Mankiw, 1996. “[What Do Budget Deficits Do?](#),” NBER Working Papers 5263, National Bureau of Economic Research, Inc

Mankiw, N. Gregory and Matthew Weinzier, “[Dynamic Scoring: A Back-of-the-Envelope Guide](#),” Harvard University manuscript 2005.

[Department of the Treasury, A Dynamic Analysis of Permanent Extension of the President’s Tax Relief](#), 2006.

Aurbach, Alan J., “[The Choice between Income and Consumption Taxes: A Primer](#),” NBER Working Paper 12307, June 2006.

Presentation topic: The macroeconomics of tax reform: [Economic Report of the President 2005](#) Chapter 3, JEL review by Slemrod; [Economic Report of the President 2006](#), Chapter 5.

III. Week 4 (10/11), Asset markets

Cochrane, John, [Asset Pricing](#), Princeton University Press, 2001. Chapter 1, except 1.5.

Rajan, Raghuram G. and Luigi Zingales, “[Financial Systems, Industrial Structure, and Growth](#),” *Oxford Review of Economic Policy*, Vol 17 No. 4, 2001.

Presentation: McGrattan, Ellen R. and Edward C. Prescott, “[Taxes, Regulation, and Asset Prices](#),” NBER Working Paper 8623, December 2001.

IV. Week 5 (10/18), Unemployment

Pissarides, Christopher: [Equilibrium Unemployment Theory](#), 2nd edition, MIT Press. 2000, Chapters 1-1.5, 8.1, 8.6, and 9-9.3.

Lawrence Katz and Alan Kruger, "The High-Pressure U.S. Labor Market of the 1990s," [Brookings Papers on Economic Activity](#), 1999, vol. 1, pp. 1-87.

Blanchard, Olivier and Justin Wolfers, "[The Role of Shocks and Institutions in the Rise of European Unemployment: The aggregate Evidence](#)," NBER Working Paper 7282, August 1999.

Presentation topic: unemployment/employability insurance: Nicholson, Walter and Karen Needels, "Unemployment Insurance: Strengthening the Relationship between Theory and Policy," *The Journal of Economic Perspectives* Vol. 20, No. 3, Summer 2006.

V. Week 6 (10/25), Fiscal stabilization policy

[Economic Report of the President 2001](#), Chapter 2; [Economic Report of the President 2005](#), Chapter 2; JEL review by Hall.

House, Christopher L. and Matthew D. Shapiro, "[Phased-In Tax Cuts and Economic Activity](#)," [American Economic Review](#) (forthcoming).

Auerbach, Alan J. "[The Effectiveness of Fiscal Policy as Stabilization Policy](#)," manuscript, University of California, Berkeley, July 2005.

Johnson, David S., Jonathan A. Parker, and Nicholas S. Souleles, "[Household Expenditure and the Income Tax Rebates of 2001](#)" [American Economic Review](#), forthcoming