

Economics 134

MACROECONOMIC POLICY FROM THE GREAT DEPRESSION TO TODAY

COURSE INFORMATION AND PROCEDURES

Course Description

The course will analyze current macroeconomic challenges and policy responses in the United States through the lens of modern macroeconomics and economic history. It will include a survey of business cycles since the Great Depression and an in-depth look at key macroeconomic policy issues, such as the impact of monetary and fiscal policy, the causes and effects of financial crises, and the role of uncertainty and balance-sheet effects in short-run fluctuations. The course is designed to build on the material in intermediate macroeconomics, and will include both theoretical and empirical analysis. Three hours of lecture and one hour of section per week. Prerequisites: Economics 100b or 101b.

Readings

The analytical framework for the course is presented in the open-access document *Short-Run Fluctuations* by David Romer, 2018. The other readings consist of scholarly journal articles, book chapters, and policy analyses. A reader containing *Short-Run Fluctuations* and the readings that are not available online is available at Copy Central, 2576 Bancroft Way. The other readings are available online through the Berkeley library using the links on the syllabus.

Lecture and Sections

Lectures are held on Mondays and Wednesdays from 5:00 to 6:30 in 245 Li Ka Shing. It is course policy that electronic devices, including phones, tablets, and laptops, are not to be used during lecture.

There is one section per week that will be used for discussion and to clarify the more difficult technical material. Students will be asked to think critically about the readings and discuss both the historical content of the assigned readings and the merits of the empirical approaches used.

Assignments and Grading

There will be a midterm and a final. In addition, students will be required to write a short critical and analytical essay on a selection of topics, and complete four graded

problem sets. In determining the final grade, the midterm will count for 25 percent, the paper for 25 percent, the problem sets and section participation for 10 percent, and the final exam for 40 percent.

Instructor Contact Information and Office Hours

Professor David Romer

679 Evans Hall

Office hours: Thursdays, 4:00–5:30, in 683 Evans

dromer@econ.berkeley.edu

GSI contact information and office hours are posted on the course website.

Course Website

Problem sets, lecture outlines, and slides will be posted on the course website:

<https://www.econ.berkeley.edu/course/2017-18/spring-2018/economics-134>

LECTURE OUTLINE AND READINGS

I. OVERVIEW OF MODERN MACROECONOMIC HISTORY AND POLICY

A. Course Overview and Introduction to Macroeconomic Data (1/17)

Joseph H. Davis, “An Annual Index of U.S. Industrial Production, 1790–1915,” *Quarterly Journal of Economics* 119 (November 2004): 1177–1205 only.
<http://www.jstor.org/stable/pdf/25098716.pdf>

B. The Great Depression (1/22)

Christina D. Romer, “The Nation in Depression,” *Journal of Economic Perspectives* 7 (Spring 1993): 19–39.
<https://www.jstor.org/stable/pdf/2138198.pdf>

C. Postwar Fluctuations and the Great Recession (1/24)

Christina D. Romer, “Changes in Business Cycles: Evidence and Explanations,” *Journal of Economic Perspectives* 13 (Spring 1999): 23–44.
<https://www.jstor.org/stable/pdf/2647116.pdf>

Barry Eichengreen and Kevin H. O’Rourke, “A Tale of Two Depressions,” VOX, April 6, 2009 (from “Start of original column (published 6 April 2009)” through end). <http://voxeu.org/print/3421>

Economic Report of the President, 2010, Chapter 2, “[Rescuing the Economy from the Great Recession](#),” pp. 39–72 only (Washington, DC: Government Printing Office, 2010).

II. MONETARY POLICY AND SHORT-RUN FLUCTUATIONS

A. Review of IS-LM/MP Framework (1/29)

David H. Romer, *Short-Run Fluctuations* (open access, 2018), Section I, “The IS-MP Model.”

B. Introduction to Regressions and Evidence about Causation (1/31)

Problem Set 1 Distributed

David H. Romer, “A Non-Technical Introduction to Regressions” (open access, 2018).

C. Does Monetary Policy Matter? (2/5)

Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960*, Chapter 13, “A Summing Up,” pp. 676–678 and 686–695 only (Princeton: Princeton University Press for NBER, 1963).

Christina D. Romer and David H. Romer, “Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz,” *NBER Macroeconomics Annual* 4 (1989): 121–161 only.

<http://www.jstor.org/stable/pdf/3584969.pdf>

D. Monetary Factors in the Great Depression (2/7)

Problem Set 1 Due

Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960*, Chapter 7, “The Great Contraction,” pp. 362–389 and 407–419 only (Princeton: Princeton University Press for NBER, 1963).

Christina D. Romer and David H. Romer, “[The Missing Transmission Mechanism in the Monetary Explanation of the Great Depression](#),” *American Economic Review Papers and Proceedings* 103 (May 2013): 66–72.

Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939*, Chapter 1, “Introduction,” pp. 3–28 (New York: Oxford University Press for NBER, 1992).

III. INFLATION AND THE CONDUCT OF MONETARY POLICY

A. Review of the Open Economy and the AD-IA Framework (2/12)

David H. Romer, *Short-Run Fluctuations* (open access, 2018), Section II, “The Open Economy,” pp. 23–39 only; and “Section III, “Aggregate Supply.”

B. The Conduct of Postwar Monetary Policy (2/14)

John B. Taylor, “A Historical Analysis of Monetary Policy Rules,” in John B. Taylor, ed., *Monetary Policy Rules*, pp. 319–341 (Chicago: University of Chicago Press for NBER, 1999). <http://www.nber.org/chapters/c7419.pdf>

Christina D. Romer and David H. Romer, “Choosing the Federal Reserve Chair: Lessons from History,” *Journal of Economic Perspectives* 18 (Winter 2004): 129–147 only. <https://www.jstor.org/stable/pdf/3216879.pdf>

Presidents Day (2/19)

IV. MONETARY POLICY AT THE ZERO LOWER BOUND

A. The Zero Lower Bound in the IS-MP-IA Framework (2/21)

Problem Set 2 Distributed

David H. Romer, *Short-Run Fluctuations* (open access, 2018), Section IV, “The Liquidity Trap.”

B. Zero Lower Bound in Practice (2/26)

Ben S. Bernanke, “[Japanese Monetary Policy: A Case of Self-Induced Paralysis?](#)” in Ryoichi Mikitani and Adam S. Posen, eds., *Japan’s Financial Crisis and Its Parallels to U.S. Experience*, pp. 149–166 (Washington, D.C.: Institute for International Economics, 2000).

Peter Temin and Barrie A. Wigmore, “[The End of One Big Deflation,](#)” *Explorations in Economic History* 27 (October 1990): 483–502.

Joseph Gagnon, Matthew Raskin, Julie Remache, and Brian Sack, “The Financial Market Effects of the Federal Reserve’s Large-Scale Asset Purchases,” *International Journal of Central Banking* 7 (March 2011): 3–25 and 38–40 only. <http://www.ijcb.org/journal/ijcb11q1a1.pdf>

C. Abenomics (2/28)

Problem Set 2 Due

Christina D. Romer, “It Takes a Regime Shift: Recent Developments in Japanese Monetary Policy through the Lens of the Great Depression,” *NBER Macroeconomics Annual* 28 (2013): 383–400. <http://www.jstor.org/stable/pdf/10.1086/674609.pdf>

Joshua K. Hausman and Johannes F. Weiland., “Overcoming the Lost Decades? Abenomics after Three Years,” *Brookings Papers on Economic Activity* (Spring 2015): 385–413. <http://www.jstor.org/stable/pdf/43752179.pdf>

V. THE ROLE OF FISCAL POLICY

A. Does Fiscal Policy Matter? (3/5)

Robert E. Hall, “By How Much Does GDP Rise If the Government Buys More Output?” *Brookings Papers on Economic Activity* (Fall 2009): 183–195 only. <http://www.jstor.org/stable/pdf/25652733.pdf>

Emi Nakamura and Jón Steinsson, “Fiscal Stimulus in a Monetary Union: Evidence from U.S. Regions,” *American Economic Review* 104 (March 2014): 753–769 only. <https://www.jstor.org/stable/pdf/42920719.pdf>

Olivier J. Blanchard and Daniel Leigh, “Growth Forecast Errors and Fiscal Multipliers,” *American Economic Review Papers and Proceedings*, 103 (May 2013): 117–120. <http://www.jstor.org/stable/pdf/23469713.pdf>

Midterm Examination (3/7)

B. The New Deal (3/12)

Paper Topics Distributed

Joshua K. Hausman, “Fiscal Policy and Economic Recovery: The Case of the 1936 Veterans’ Bonus,” *American Economic Review* 106 (April 2016): 1100–1112, 1123–1129, 1132–1140 only.
<https://www.aeaweb.org/atypon.php?doi=10.1257/aer.20130957>

C. Expansionary Fiscal Contractions? (3/14)

Francesco Giavazzi and Marco Pagano, “Can Severe Fiscal Contractions Be Expansionary? Tales of Two Small European Countries,” *NBER Macroeconomics Annual* 5 (1990): 75–92 only.
<http://www.jstor.org/stable/pdf/3585133.pdf>

International Monetary Fund, *World Economic Outlook*, Chapter 3, “[Will It Hurt? Macroeconomic Effects of Fiscal Consolidation](#),” pp. 93–108 and 113–122 only (Washington, D.C.: International Monetary Fund, 2010).

VI. RECENT AND PROSPECTIVE FISCAL POLICY

A. Fiscal Policy in the Great Recession (3/19)

John Taylor, “The Lack of an Empirical Rationale for a Revival of Discretionary Fiscal Policy,” *American Economic Review Papers and Proceedings* 99 (May 2009): 550–555. <http://www.jstor.org/stable/pdf/25592456.pdf>

Jonathan A. Parker, Nicholas S. Souleles, David S. Johnson, Robert McClelland, “Consumer Spending and the Economic Stimulus Payments of 2008,” *American Economic Review* 103 (October 2013): 2530–2543 only.
<http://www.jstor.org/stable/pdf/42920659.pdf>

Council of Economic Advisers, “[The American Recovery and Reinvestment Act of 2009: First Quarterly Report](#),” September 10, 2009, pp. 1–17 and 23–40 only.

B. The Long-Run Budget Outlook (3/21)

Problem Set 3 Distributed

Alan J. Auerbach and William G. Gale, “[The Fiscal Outlook in a Period of Policy Uncertainty](#),” unpublished paper, August 2017.

Carmen M. Reinhart and Kenneth S. Rogoff, “Growth in a Time of Debt,” *American Economic Review Papers and Proceedings* 100 (May 2010): 573–578. <https://www.jstor.org/stable/pdf/27805061.pdf>

Spring Break (3/26 and 3/28)

VII. NONMONETARY FACTORS IN RECESSIONS

A. Uncertainty (4/2)

Christina D. Romer, “The Great Crash and the Onset of the Great Depression,” *Quarterly Journal of Economics* 105 (August 1990): 597–624.

<https://www.jstor.org/stable/pdf/2937892.pdf>

Scott R. Baker, Nicholas Bloom, and Steven J. Davis, “Measuring Economic Policy Uncertainty,” *Quarterly Journal of Economics* 131 (November 2016): 1593–1601, 1607–1624, 1628–1634 only.

(<https://doi.org/10.1093/qje/qjw024>, then click on “PDF”)

B. Income Inequality and Macroeconomic Behavior (4/4) **Problem Set 3 Due**

Robert B. Reich, *Aftershock: The Next Economy and America’s Future*, pp. 18–38 and 60–64 only (New York: Alfred A. Knopf, 2010).

Raghuram G. Rajan, *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Chapter 1, “Let Them Eat Credit,” pp. 21–45 (Princeton: Princeton University Press, 2010).

C. Hysteresis Effects on Unemployment (4/9)

Laurence Ball, “Disinflation and the NAIRU,” in Christina D. Romer and David H. Romer, eds., *Reducing Inflation: Motivation and Strategy*, pp. 167–185 (Chicago: University of Chicago Press for NBER, 1997).

<http://www.nber.org/chapters/c8884.pdf>

Danny Yagan, “Employment Hysteresis from the Great Recession,” National Bureau of Economic Research Working Paper No. 23844 (September 2017), pp. 1–20, 25–26 only.

<http://eml.berkeley.edu/~yagan/Hysteresis.pdf>

VIII. FINANCIAL CRISES

A. Asset Price Bubbles (4/11)

John Kenneth Galbraith, *The Great Crash: 1929*, Chapter 1, “Vision and Boundless Hope and Optimism,” pp. 1–23, Chapter 5, “The Crash,” pp. 88–107, and Chapter 6, “Things Become More Serious,” pp. 108–113 only (Boston: Houghton Mifflin, 1954, reprinted with a new introduction in 1988).

Karl E. Case, Robert J. Shiller, and Anne K. Thompson, “What Have They Been Thinking? Homebuyer Behavior in Hot and Cold Markets,” *Brookings Papers on Economic Activity*, Fall 2012, pp. 265–290 only.

www.jstor.org/stable/pdf/41825368.pdf

B. Including an Interest Rate Differential in the IS-MP Framework (4/16)

Problem Set 4 Distributed; Paper Due

David H. Romer, *Short-Run Fluctuations* (open access, 2018), Section V, “Credit Market Disruptions.”

C. The Effects of Financial Crises (4/18)

Victoria Ivashina and David S. Scharfstein, “Bank Lending During the Financial Crisis of 2008,” *Journal of Financial Economics* 97 (September 2010): 319–338.

(<http://www.sciencedirect.com/science/article/pii/S0304405X09002396?via%3Dihub#>, then click on “Download PDF”)

Carmen M. Reinhart and Kenneth S. Rogoff, *This Time Is Different*, Chapter 14, “The Aftermath of Financial Crises,” pp. 223–239 (Princeton: Princeton University Press, 2009).

D. Policy Responses to Financial Crises (4/23)

Problem Set 4 Due

Gary Richardson and William Troost, “Monetary Intervention Mitigated Banking Panics during the Great Depression: Quasi-Experimental Evidence from a Federal Reserve District Border, 1929–1933,” *Journal of Political Economy* 117 (December 2009): 1031–1045 and 1057–1071 only.

<http://www.jstor.org/stable/pdf/10.1086/649603.pdf>

Christina D. Romer and David H. Romer, “[Why Some Times Are Different: Macroeconomic Policy and the Aftermath of Financial Crises](#),” *Economica* 85 (January 2018): 1–28 only.

E. Balance Sheet Effects (4/25)

Richard C. Koo, *The Holy Grail of Macroeconomics: Lessons from Japan’s Great Recession*, Chapter 1, “Japan’s Recession,” pp. 1–37 (Singapore: Wiley, 2009).

Atif Mian and Amir Sufi, *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again*, Chapter 6, “The Credit Expansion,” pp. 75–91, and Chapter 3, “Cutting Back.” pp. 31–45 (Chicago: University of Chicago Press, 2014).

Final Examination (Monday, May 7, 3–6 P.M.)