

ESSAY ASSIGNMENT

INSTRUCTIONS

1. Your assignment is to write a short critical and analytical essay on one of the three topics listed on the following pages. The purpose of the paper is to use the ideas, tools, and readings from the course to provide insights into a policy question.
2. Importantly, this is not a research paper. A good essay will make original arguments using tables, diagrams, and sensible analysis. It will not just string together quotes from the “possible readings” (discussed below) or other sources. A good strategy is to start by thinking of the assignment as an open-note (but not open-book), no-time-limit essay question, and to then outline what arguments you would make and how you would organize such an essay, and to only look at the possible readings after you have done that.
3. Your paper should focus on the economics of the issue and not on other aspects, such as politics and law. When you have come up with an outline of your essay, you should look over your arguments and ask yourself whether one of your classmates would be able to tell from them that you are taking 134. If they would not, you need to reformulate your essay.
4. A list of possible readings for each topic is provided below. They readings cover a range of views and are designed to stimulate your own thinking, not answer the question for you. Some of the readings on the syllabus are also potentially relevant. You do not need to read everything that is listed, and you certainly do not need to go beyond those readings (though it is fine to do so).
5. This is a writing assignment. Thus, your paper should be clearly written, concise, and well organized, and free of spelling and grammar errors. The grading will be based on both the quality of your analysis and the quality of your writing.
6. While your paper should provide a balanced assessment of the pros and cons of the proposal, it should come to a clear recommendation about whether the proposal should be adopted, and explain why.
7. You should write the paper at a level appropriate for someone who has taken this course. Thus, you can assume that the reader knows intermediate microeconomics and macroeconomics and the ideas and tools from this course, and has some familiarity with regressions and other basic statistical tools.
8. Part of good writing is getting comments and feedback from others. Thus, you are welcome (and encouraged) to talk to classmates and others about your topic and

your tentative arguments, and to get feedback on a draft of your essay. Two helpful guidelines about how much help is too much are: (i) You should think about your topic, and outline some possible arguments, before talking with others. (ii) Any feedback you get should take the form of comments, not direct edits of your writing. (For example, if someone gives you feedback electronically on a draft of your essay written in WORD, all the feedback should be in comments inserted in the margin, not proposed edits to your text.)

9. Your paper should cite its sources appropriately. The usual format in economics is to cite a source referenced in the text with a parenthetical such as (Hausman 2016). If you quote directly from a source (which we do not recommend), the quotation should be in quotation marks and you should provide the page number—for example, (Hausman 2016, p. 1106). Your bibliography should then give the full references. You may use any standard format for the bibliographical information.

10. Mechanics:

- a. You should aim for a paper of roughly 4 pages, double-spaced with 1 inch margins, in 12 point font (approximately 1300 words), plus 1 to 2 pages of supporting diagrams, graphs, and/or tables. The paper should not go beyond 6 pages total without a very good reason. If there are more than 7 pages total, we will discard the later pages before reading the paper. The title page and references do not count toward the page limit; everything else does.
- b. Please put your name, your GSI's name, and the topic on your title page. The title page should also acknowledge anyone you have received help from (along the lines of the acknowledgment footnotes in research papers you have read this semester). Please do not put your name on the other pages of your essay.
- c. You must submit the paper both electronically and in hard copy. The specifics about the electronic submission will be forthcoming. **The hard copy of the paper is due at the beginning of lecture on Monday, April 16.**

TOPICS

Write on one of the following three topics.

I. Should the Federal Reserve raise its inflation target?

The Federal Reserve has had an implicit target rate of inflation of around 2 percent for many years, and in 2012 it formally adopted a 2 percent inflation target. Some policymakers and commentators have argued, however, that the Federal Reserve should adopt a higher inflation target, such as 4 percent.

Your essay should critically evaluate this proposal and make a recommendation concerning whether it should be adopted.

Possible readings:

Olivier Blanchard, Giovanni Dell’Ariccia, and Paolo Mauro, “Rethinking Macroeconomic Policy,” *Journal of Money, Credit, and Banking* 42 (September 2010): 199–215.
<http://onlinelibrary.wiley.com/doi/10.1111/j.1538-4616.2010.00334.x/epdf>

Ben S. Bernanke, “The Benefits of Price Stability,” speech at the Woodrow Wilson School of Public and International Affairs, Princeton, New Jersey (February 24, 2006).
<http://www.federalreserve.gov/newsevents/speech/bernanke20060224a.htm>

Paul A. Volcker, “A Little Inflation Can Be a Dangerous Thing,” *New York Times* (September 18, 2011). <http://www.nytimes.com/2011/09/19/opinion/a-little-inflation-can-be-a-dangerous-thing.html>

John C. Williams, “Heeding Daedalus: Optimal Inflation and the Zero Lower Bound,” *Brookings Papers on Economic Activity*, Fall 2009, 1–37.
https://www.brookings.edu/~media/projects/bpea/fall-2009/2009b_bpea_williams.pdf

Laurence M. Ball, “The Case for Four Percent Inflation,” *Central Bank Review* 13 (May 2013): 17–31.
www.econ2.jhu.edu/People/Ball/four%20percent%20inflation%20cbank.pdf

Ben S. Bernanke, “Modifying the Fed’s Policy Framework: Does a Higher Inflation Target Beat Negative Interest Rates?” *Brookings Institution blog*, September 13, 2016.
<https://www.brookings.edu/blog/ben-bernanke/2016/09/13/modifying-the-feds-policy-framework-does-a-higher-inflation-target-beat-negative-interest-rates/>

Michael T. Kiley and John M. Roberts, “Monetary Policy in a Low Interest Rate World,” *Brookings Papers on Economic Activity*, Spring 2017, 317–372.
<https://www.brookings.edu/wp-content/uploads/2017/08/kileytextsp17bpea.pdf>

II. Should there be a new jobs tax credit in times of high unemployment?

Some economists and commentators have argued that when the unemployment rate is high, one tool that policymakers should use is a particular form of fiscal policy: a tax cut for businesses that increase employment. Under such plans, a firm would get a tax cut (or credit) if its employment or total wage bill rose relative to some base period.

Your essay should critically evaluate this proposal and make a recommendation concerning whether it should be adopted.

Possible readings:

Congressional Budget Office, “Policies for Increasing Economic Growth and Employment in 2010 and 2011,” January 2010.

<http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/108xx/doc10803/01-14-employment.pdf>

Timothy J. Bartik and John H. Bishop, “The Job Creation Tax Credit: Dismal Projections for Employment Call for a Quick, Efficient, and Effective Response,” Economic Policy Institute Briefing Paper 248, October 20, 2009.

<http://www.epi.org/page/-/bp248/bp248.pdf>

Iris J. Lay and Robert Tannenwald, “The Zero-Sum Game: States Cannot Stimulate Their Economies by Cutting Taxes,” Center on Budget and Policy Priorities,” March 2, 2010. <http://www.cbpp.org/files/3-2-10sfp.pdf>

Jeffrey Perloff and Michael Wachter, “The New Jobs Tax Credit: An Evaluation of the 1977–1978 Wage Subsidy Program,” *American Economic Review: Papers and Proceedings* 69 (May 1979): 173–179. www.jstor.org/stable/pdf/1801638.pdf

John Bishop and Robert Haveman, “Selective Employment Subsidies: Can Okun’s Law Be Repealed?” *American Economic Review Papers and Proceedings* 69 (May 1979): 124–130. <http://www.jstor.org/stable/1801629.pdf>

Lawrence F. Katz, “Long-Term Unemployment in the Great Recession,” Congressional Testimony, April 2010.

www.lerachapters.org/OJS/ojs-2.4.4-1/index.php/LERAMR/article/download/1776/1775

Benjamin Schoefer, “The Financial Channel of Wage Rigidity,” unpublished paper, University of California, Berkeley, August 2015.

http://eml.berkeley.edu/~schoefer//schoefer_files/Schoefer_FinancialChannelWageRigidity_jmp2015version.pdf

III. In a severe recession, should fiscal policy rely primarily on tax reductions or spending increases?

If the economy is in a severe recession and monetary policy is constrained by the zero lower bound, one option is for the government to use fiscal policy. But fiscal policy takes many forms. Some of those forms involve greater government spending, notably government purchases of goods and services (infrastructure investment, direct employment of workers, and so on), transfer payments, and payments to state and local governments. Other forms involve tax cuts, notably broad-based income tax cuts or rebates, reductions in payroll taxes, and tax credits for investment.

Your essay should critically evaluate the relative merits of tax reductions and spending

increases as means of fiscal stimulus and make a recommendation concerning whether the majority of fiscal stimulus in a severe recession should consist of lower taxes or higher spending.

Possible readings:

Congressional Budget Office, “Policies for Increasing Economic Growth and Employment in 2010 and 2011,” January 2010.

<https://www.cbo.gov/sites/default/files/111th-congress-2009-2010/reports/01-14-employment.pdf>

N. Gregory Mankiw, “Crisis Economics,” *National Affairs*, Summer 2010, 21–32.

https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0ahUKEwjA6qbLnObZAhUT2GMKHTNsDbMQFggvMAE&url=http%3A%2F%2Fscholar.harvard.edu%2Ffiles%2Fmankiw%2Ffiles%2Fcrisis_economics.pdf&usg=AOvVaw1vVa3EG5ZDKBThoQEajzgC

Mark Zandi, “*The Economic Outlook and Budget Challenges*,” Congressional testimony, January 2009.

http://www.economy.com/mark-zandi/documents/House_Budget_Committee_01_27_09.pdf

Alan S. Blinder and Mark Zandi, “How the Great Recession Was Brought to an End,” *Economy.com*, July 2010.

www.economy.com/mark-zandi/documents/End-of-Great-Recession.pdf

Papers by Valerie A. Ramey, John B. Taylor, and Jonathan A. Parker, in “Forum: What Is the Size of the Multiplier?” *Journal of Economic Literature* 49 (September 2011), 673–718. <https://www.aeaweb.org/issues/225>

Sahm, Claudia R., Matthew D. Shapiro, Joel Slemrod, “Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How it is Delivered?” *American Economic Journal: Economic Policy* 4 (August 2012): 216–250.

<https://www.aeaweb.org/articles/pdf/doi/10.1257/pol.4.3.216>