

Macroeconomics B (Economics 204B)

MODULE INFORMATION

Module code: 08 08338

This is a 10-credit module linked to Economics 204A (08 083336).

Year: 2005–2006

Lecturer: Facundo Alborno

Room: 417

Office Hours: Mondays 14:00—16:00, or by previous appointment.

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NOTE: Please add “M204B” to the email subject line

MODULE DELIVERY

Lectures:

Monday 17:00 – 18:00, Muirhead Tower Main Lecture Theatre

Wednesday 12:00 – 13:00, Mechanical Engineering G31

Classes continue with the same groups and times as in the autumn term.

MODULE ASSESSMENT

Assessment is through a 3-hour exam in the May–June exam period and a 50-minute class test near the end of the module. Taking the two modules together, the overall weights are as follows: Examination (80%); autumn term class test (10%); Spring Term class test (10%).

The second class test is **PROVISIONALLY** scheduled for **Wednesday February 15th**. It will involve multiple-choice questions on topics covered this term before the test.

The likely format for the May–June examination is that the paper will be divided into two sections (A and B, one for each semester), each containing 5 questions and that you will be asked to attempt 2 questions from each section. The exact format will be confirmed later in the Spring term. The marking criteria in use in this course are set out in the degree classification guidelines available in the Department notice boards and in the student handbook (www.bham.ac.uk/economics/handbook).

MODULE READING

The course is structured so that you can use the same textbooks, as on Economics 204A and Economics 203A, though you should expect to read some additional material as neither of these textbooks covers the topics in sufficient depth. In some cases, a variety of alternative reading is provided to make it easier to find material.

The textbook that you are assumed to have already, or to be able to get hold of easily, is:

Greg Mankiw *Macroeconomics* (5th edition). NY: Worth Publishers, 2003.

Reference will also be made to:

Olivier Blanchard *Macroeconomics* (3rd edition). Prentice Hall, 2002.

M. Burda and C. Wyplosz *Macroeconomics: a European Text* (3rd edition). Oxford University Press, 2001.

M. Gärtner *Macro Economics*, Prentice Hall, 2003.

D. Miles and A. Scott *Macroeconomics: Understanding the Wealth of Nations*, Oxford University Press 2002.

These books are useful if you want material that deals more with Europe and the UK rather than just with the US.

Internet Resources

Electronic copies of many journals are available on the internet. Several journals are available (without the most recent issues) at <http://uk.jstor.org> (to access this you have to log on from the campus). Other online journals are listed in the library catalogue and at <http://www.tdnet.com/birmingham/> or via the Information Services web page at <http://www.is.bham.ac.uk> from which you select eJournals directory . Note that access to most of these journals is available only if you get on to the internet via the campus network. Most of the journal articles on this reading list are available online as well as on the library shelves.

How to use the reading list

This reading list provides references to Mankiw, Blanchard, Burda and Wyplosz, and Gärtner. However, these four books are organised in different ways, and they approach the subject from different perspectives, which means that they are not perfect substitutes for each other.

The course follows most closely the structure of Mankiw, but departs from this in several places. So you will probably do best to start with Mankiw, but to use material from Burda and Wyplosz and Gärtner on topics where a European perspective is important. On some topics it is useful to read outside the main textbooks and some references to articles are provided. These are, however, kept very few.

MODULE CONTENTS

In providing the student with this general reading list or access to the books, journals, articles or photocopies of the articles on the list there is neither requirement nor intention on behalf of the course leader or tutor that students should copy any item on the list.

The reading list is provided as additional material. ***Please note that all timings are approximate.***

Week 1. (Week beginning Jan 16th)

- Introduction to the course;
- In the long run we are all dead: Short, Medium and Long Run in macroeconomics.
- Price Stickiness and Inflation and Unemployment

Mankiw, chapter 13.

Blanchard, chapters 2, 7 and 8.

Burda and Wyplosz, chapter 12.

Week 2. (Week beginning Jan 23rd)

- Lucas's Critique.
- Stabilisation policy
- Political Business Cycle

Mankiw, chapter 14

Blanchard, chapter 9.

Burda and Wyplosz, chapters 15 and 16.

Gärtner, chapters 11, 13.

Miles and Scott, chapter 16.

Robert E. Lucas and Thomas J. Sargent 'After Keynesian macroeconomics', in *After the Phillips Curve: Persistence of High Inflation and High Unemployment*, 1978; Boston, MA: Federal Reserve Bank of Boston, pp. 48–72; reprinted in B. Snowden and H. Vane *A Macroeconomics Reader* (Routledge 1997); and in Lucas and Sargent (eds) *Rational Expectations and Econometric Practice*.

Bank of England 'Monetary policy in the United Kingdom' [Fact Sheet, from <http://www.bankofengland.co.uk/publica.htm>].

Bank of England 'Overview', in *Economic Models at the Bank of England*, 1999, chapter 1. [<http://www.bankofengland.co.uk/modcobook.htm>]

HM Treasury 'The monetary policy framework', [<http://www.hmtreasury.gov.uk/siteindex.htm>].

Week 3. (Week beginning Jan 30th)

- Ricardian Equivalence.
- Government debt and deficits

Mankiw, chapter 15

Blanchard, chapter 27.

Burda and Wyplosz, chapter 15.4-5.

Gärtner, chapter 14.

Miles and Scott, chapter 11.

John Seater 'Ricardian equivalence', *Journal of Economic Literature* 31, 1993, pp. 142–90. [<http://uk.jstor.org>]

Robert J. Barro 'The Ricardian approach to budget deficits', *Journal of Economic Perspectives*, Spring 1989, pp. 37–54 [<http://uk.jstor.org>]; reprinted in B. Snowdon and H. Vane *A Macroeconomics Reader* (Routledge 1997).

Weeks 4 (Week beginning Feb 6th)

- Consumption

Mankiw, chapters 16.

Blanchard, chapter 16.

Miles and Scott, chapters 13.

M. Friedman *The Theory of the Consumption Function*, 1957.

F. Modigliani 'The life cycle, individual thrift and the wealth of nations', *American Economic Review* 76, 1986, pp. 297–313 [<http://uk.jstor.org>].

Weeks 5 (Week beginning Feb 13th)

- Reading week and class test

Weeks 6 (Week beginning Feb 20th)

- Investment

Mankiw, chapters 17.

R.E. Backhouse *Applied UK Macroeconomics*, 1991, chapter 2-3.

Blanchard, chapter 16.

Miles and Scott, chapters 13–14.

M. Friedman *The Theory of the Consumption Function*, 1957.

F. Modigliani 'The life cycle, individual thrift and the wealth of nations', *American Economic Review* 76, 1986, pp. 297–313 [<http://uk.jstor.org>].

Week 7 (Week beginning Feb 27th)

- The financial sector
- Demand for Money, Supply and the “Neutrality” of Money.

Mankiw, chapter 18.

Blanchard, chapter 4, 5.

Burda and Wyplosz, chapters 8–9, 19.3.

J. Tobin ‘A general equilibrium approach to monetary theory’, *Journal of Money, Credit and Banking* 1 (February 1969), pp. 15–29. [<http://uk.jstor.org>]

W.J. Baumol ‘The transactions demand for cash: an inventory-theoretic approach’ *Quarterly Journal of Economics*, 66(4), 1952, pp. 545–556.

J. Tobin ‘Interest elasticity of the transactions demand for cash’, *Review of Economics and Statistics* 38, 1956, pp. 241–7. [<http://uk.jstor.org>]

J. Tobin ‘Liquidity preference as behaviour towards risk’, *Review of Economic Studies* 25, 1958, pp. 65–86. [<http://uk.jstor.org>]

Week 8. (Week beginning Mar 6th)

- Growth Theory: Capital accumulation, Population growth, Technical progress, Growth empirics, Convergence?

Mankiw chs. 7, 8.

Debraj Ray, *Development Economics*. Princeton University Press, 2002.

Week 9. (Week beginning Mar 13th)

- What do we know about macroeconomics and how do we know it?
- Introduction to Behavioural Macroeconomics

Mankiw, Epilogue

Akerlof, G.A. “Behavioural Macroeconomics and Macroeconomic Behaviour” Nobel Prize Lecture, Stockholm, December 8, 2001. [www.nobel.se/economics/laureates/2001/]

Solow, R.M. et al. (1997) ‘Is there a core of practical macroeconomics that we should all believe?’ *American Economic Review* 87(2), pp. 230–46. [<http://uk.jstor.org>]

R. E. Backhouse ‘Economic theory, empirical evidence and progress in economics’, in Backhouse *Truth and Progress in Economic Knowledge*, 1997, chapter 13.

L. Summers ‘The scientific illusion in empirical macroeconomics’, *Scandinavian Journal of Economics* 93(2), 1991, pp. 129–48.

Kirman, A.P. 1992. Whom or what does the representative agent represent? *Journal of Economic Perspectives* (Spring).

Hoover, K.D. 2001. Is macroeconomics for real? In U. Mäki (ed.) *The Economic World View: Studies in the Ontology of Economics*. Cambridge University Press. Early version in *The Monist* 78(3), pp. 235–57.

CLASS TEST

This is provisionally scheduled for **Wednesday February 15th** in the regular lecture hour. It will comprise multiple-choice questions on **weeks 1–4** of this semester’s material.