

Msc Macroeconomics 2006/2007: Reading List

Welcome to the course. Basic details on the course, including assessment, are described in a separate module outline. If you have any problems, my office hour is 10.40-11.40 on Mondays (Room SC32), or contact me (Simon Wren-Lewis) by email at S.Wren-Lewis@ex.ac.uk. My personal web page, which has access to all course handouts, is: <http://www.people.ex.ac.uk/swrenlew/welcome1.htm>

Text Books

While no single text covers all elements of the course, most topics are covered by

Romer, Advanced Macroeconomics, McGraw-Hill

and there should be a supply of these in the local bookshop.

Another very good, if less student friendly, advanced text is

Blanchard and Fischer, Lectures in Macroeconomics, MIT Press

This is on short loan in the library. An excellent, but more advanced, text that covers open economy issues is

Obstfeld and Rogoff, Foundations of International Economics, MIT Press

Those also doing finance courses might find the above particularly useful.

Journal of Economic Perspectives

It is worth browsing through the last ten years of this journal, which sometimes contains useful and informal discussions of key areas e.g. Winter 1994 on new growth theory, Spring 96 on Real Business Cycle Methodology

Previous Knowledge

MSc student's background in macroeconomics can vary considerably, and as a result the course is designed – as far as is possible – to be self-contained. However parts of the course will be hard going, and somewhat mysterious, for those who have forgotten or never knew basic IS/LM analysis, the classical model of output supply and the labour market, and the Phillips curve.

If you find a particular part of the course difficult because it covers new material, then it might be useful to start with a fairly basic undergraduate text. One which fits in with the general approach taken here (Temporary Reserve, Library) is

Barro, R and Grilli, V, European Macroeconomics, Macmillan

but others may be more appropriate to your needs, so please do not hesitate to let me know of any problems and I will be happy to advise.

Mathematics

For most of you the most immediately striking aspect of all three text books will be the extent of mathematical analysis, and for many this is the most difficult adjustment they will have to make to studying at MSc level. Below are a couple of useful reference texts, but there are many others, and please help each other where you can.

Chaing, AC (1992) Elements of Dynamic Optimisation McGraw Hill (see especially 5.3 and 9.3)

Dixit, AK (1990) Optimisation in Economic Theory Oxford University Press (e.g Chapter 9)

Cuthbertson, K and Taylor, M Macroeconomic Systems Basil Blackwell Chapter 3

Reading List

The course can be divided into five broad sections. The reading list for each section is deliberately full to give you as much choice as possible: you are only expected to read some of this: reading material that I consider essential is preceded by an asterix. Any feedback on this list (gaps, confusing material etc) will be gratefully received.

1. The Intertemporal Classical Model and the Longer Run

The 'classic' reference on the basic growth model is

Solow, R (1956) 'A Contribution to the Theory of Economic Growth', *Quarterly Journal of Economics*, 65-94

A simple description of this model is now finding its way into textbooks; for example

*Romer, D. 'Advanced Macroeconomics' Chapter 1
Mankiw, N.G. 'Macroeconomics' publishers Worth, Chapter 4
Hall, R.E. and Taylor, J.B. 'Macroeconomics' publishers Norton, Chapter 4

The intertemporal consumption model is analysed in

*Romer, D. 'Advanced Macroeconomics' Chapter 2

Obstfeld and Rogoff, Chapters 1-2

Blanchard and Fischer, Chapter 2 (This is hard, but very useful)

Deaton, A and Muellbauer, J (1980) The Economics of Consumer Behaviour Cambridge University Press pp 97-105, 317-335

Frenkel, J.A. and Razin, A. 'Fiscal Policies and the World Economy' MIT Press, Chapter 4

A useful outline of both growth models, and more recent ideas not covered in this course, is contained in

Barro, R.J and Sala-i-Martin, X 'Economic Growth' McGraw-Hill Chapters 1-2

- Aghion, P and Howitt, P (1998) *Endogenous Growth Theory*, MIT Press.
- Temple, J (1999) The new growth evidence *Journal of Economic Literature* 37, 112-156
- Romer, D. 'Advanced Macroeconomics' Chapter 3
Ricardian Equivalence, Intergenerational models, Optimality
- *Romer, D. 'Advanced Macroeconomics' Chapter 2
- Deaton, Angus (1992) Understanding Consumption Oxford University Press
- *Blanchard and Fischer, Chapter 3
- Obstfeld and Rogoff, Chapter 3
- Barro, R (1974) 'Are Government Bonds Net Wealth?', *Journal of Political Economy*, 82, 1095-1118
- Barro, R (1989) 'The Ricardian Approach to Budget Deficits', *Journal of Economic Perspectives* 3(2), pp37-54
- Barro, R (1989) 'The Neoclassical Approach to Fiscal Policy', Chapter 5 in Barro, R (ed) *Modern Business Cycle Theory*
- Diamond, P (1965) 'National Debt in a Neoclassical Growth Model', *American Economic Review*, 55, pp 1126-1150
- Bernheim, B and Bagwell, K (1988) 'Is Everything Neutral?', *Journal of Political Economy*, 64(2), 93-110
- Blanchard, O (1985) 'Debt, Deficits, and Finite Horizons', *Journal of Political Economy*, 93, pp 223-247
- Buiter, W (1988) 'Death, birth, productivity growth and debt neutrality' *Economic Journal* 89, 279-293
- Weil, P (1987) 'Love thy Children: reflections on the Barro debt neutrality theorem' *Journal of Monetary Economics*, 19, 378-391
- Diamond, P.A. (1997) 'Macroeconomic Aspects of Social Security Reform' *Brookings Papers on Economic Activity* 2:1-87
- The Fiscal Theory of the Price Level*
- Leith, C and Wren-Lewis, S (2000), Interactions Between Monetary and Fiscal Policy, *Economic Journal*, 110,93-108
- Woodford, M (2000) 'Fiscal requirements for price stability', *J of Money, Credit and Banking*
- After all this, if you want a lighter read on the 'state of macroeconomics' see*

Mankiw, N (1990) 'A Quick Refresher Course in Macroeconomics' *Journal of Economic Literature* 1645-1660

An excellent non-technical account of why macroeconomic ideas matter, and the relationship between theory and policy, is contained in

Krugman, P (1994) Peddling Prosperity Norton

2. Imperfect Competition and Medium Term Unemployment

Carlin, W and Soskice, D (1990) Macroeconomics and the Wage Bargain Oxford University Press Chapter 6

Layard, Nickell and Jackman (1991) , Unemployment Oxford University Press

Nickell, S (1990) 'Unemployment: A Survey', *Economic Journal* 100, 391-439

*Blanchard, O and Kiyotaki, N (1987) 'Monopolistic competition and the Effects of Aggregate Demand', *American Economic Review* 77, 647-666

Dixon, H and N. Rankin (1994) 'Imperfect Competition and Macroeconomics: a survey' *Oxford Economic papers* Vo.46 pp171-199: see also Chatterji, M and Molana, H (1994) in the same journal.

Bean, C and Layard, R (1989) 'Why Does Unemployment Persist' *Scandinavian Journal of Economics* 91, 371-396

McDonald and Solow (1981) 'Wage Bargaining and Employment' *American Economic Review* 71, 896-908

Romer, D. 'Advanced Macroeconomics' Chapter 10

O.Blanchard and J.Wolfers (2000) 'The Role of Shocks and Institutions in the Rise in European Unemployment: the Aggregate Evidence' *Economic Journal* 110 C1-33

3. Business Cycles

Real Business Cycles

*Romer, D. 'Advanced Macroeconomics' Chapter 4

Campbell, J and Mankiw, G. (1987) 'Are Output Fluctuations Transitory?' *Quarterly Journal of Economics* 102, 857-880.

Christiano, L. and Eichenbaum, M. (1992) 'Current Real-Business Cycle Theories and Aggregate Labour-Market Fluctuations' *American Economic Review* 82, 430-450.

Campbell, J. (1994) 'Inspecting the Mechanism: An Analytical Approach to the Stochastic Growth Model' *Journal of Monetary Economics* 33, 463-506.

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

New Keynesian Models

An excellent set of readings which include most of the key articles in 'New Keynesian' macroeconomics is Mankiw, NG and Romer, D New Keynesian Economics Vol1 and 2 MIT Press

*Romer, D. 'Advanced Macroeconomics' Chapter 6

Ball, L and Romer, D (1990) 'Real Rigidities and the Nonneutrality of Money', *Review of Economic Studies* 57, 183-203 and in Mankiw and Romer.

*Clarida, R, Gali, J. and Gertler, M (1999) 'The science of monetary policy: a New Keynesian Perspective' *Journal of Economic Literature* 37, 1661-1707

Taylor, J (1979) 'Staggered Wage Setting in a Macro Model' *American Economic Review* 69, 108-113 and in Mankiw and Romer.

Begg, D The Rational Expectations Revolution in Macroeconomics Philip Allan, Chapters 2 and 6

Leslie, D (1993) Advanced Macroeconomics McGraw Hill Chapter 4

Blanchard and Fischer op.cit. Chapters 8 and 9

Pesaran, M.H. The Limits to Rational Expectations Blackwell Chapter 2

4. Open Economy Models

Exchange Rate dynamics, Equilibrium exchange rates

Obstfeld and Rogoff, Chapter 4

Obstfeld, M. and Rogoff, K (1995), Exchange rate dynamics redux, *Journal of Political Economy*, 103, 624-660 and chapter 10 of their text book.

Stephenson, Muscatelli and Gregory, Macroeconomic Theory and Stabilisation Policy, Philip Allan Chapters 7-11

Frenkel, J and Razin, A (1987) Fiscal Policy and the World Economy MIT Press

Dornbusch, R (1976) 'Expectations and Exchange Rate Dynamics' *Journal of Political Economy* 84, pp 1161-1176

Dornbusch, R and Fischer, S (1980) 'Exchange Rates and the Current Account', *American Economic Review* 70, pp960-971

Eaton, J and Turnovsky, S (1983) 'Covered Interest Parity, Uncovered Interest Parity, and Exchange Rate Dynamics', *Economic Journal* 93, pp 555-575

MacDonald, R and Taylor, M (1989) Exchange Rates and Open Economy Macroeconomics Blackwells Chapters 1 and 5

Giovannini, A (1988) 'The Real Exchange Rate, the Capital Stock and Fiscal Policy' *European Economic Review* 32, 1747-1767

*Lane, P (2001) 'The New International Macroeconomics: a survey' *Journal of International Economics*, 54, 235-266

5. Macroeconomic Policy

Romer, D. 'Advanced Macroeconomics' Chapter 9

Artis and Lewis "Apres le Deluge: Monetary and Exchange Rate Policy in Britain and Europe", *Oxford Review of Economic Policy*, Autumn 1993

Kydland and Prescott, "Rules rather than discretion: the inconsistency of optimal plans", *Journal of Political Economy*, 85, 1977

Barro and Gordon, "Rules, discretion, and reputation in a model of monetary policy", *Journal of Monetary Economics*, 12, 101-121, 1983

*Blanchard and Fischer, *Lectures on Macroeconomics*, 11.4

Rogoff "The optimal degree of commitment to an intermediate monetary target", *Quarterly Journal of Economics*, 100, 1169-90, 1985

Alesina and Summers, "Central bank independence and macroeconomic performance: some comparative evidence", *Journal of Money, Credit and Banking*, 25, 1993

Giavazzi and Giovannini, "The role of the exchange rate regime in a disinflation: empirical evidence on the European Monetary System", in *The European Monetary System*, ed. Giavazzi, Micossi, and Miller, CUP 1988

Walsh, C.E. (1995) 'Optimal contracts for central bankers' *American Economic Review* 85 pp150-67