

# Core Macroeconomics

Hillary Term 2008

## Week 6: Monetary and Fiscal Policy

### Reading

Economists' views on the effectiveness of monetary and fiscal policy have changed significantly since the 1970s. Although most economists accept that there is no long-run trade-off between unemployment and inflation, they generally believe that there can be a short-run trade-off. Carlin & Soskice (2006)\*\* chapters 3 and 5 is a good starting point. Romer (2006)\*\* chapters 10 and 11 present a readable introduction to this topic, see also Burda & Wyplosz (2005) chapters 8, 9, 15 and 16 and Mankiw (2005) chapters 14 and 15 for background material. Blinder & Solow (1973), Barro (1974), and Barro & Gordon (1983) are three 'classic' articles on macroeconomic policy. Attfield, Demery & Duck (1985)\*\* chapter 3 and Begg (1982) discuss rational expectations at length. Pierce & Tysome (1985)\*\* chapters 1 and 2 are a good summary of monetary policy issues, and Crafts & Woodward (1991) chapters 3 and 4 provide a UK historical perspective, as do Laidler (1985) and Cobham (2002). Allsop & Vines (2000)\*\* , Ball (1993) and Temple (2002) all contain important if not specialized arguments about Monetary Policy. Romer (1993) addresses issues relating to openness and Bernanke & Mishkin (1997)\*\* is an important article dealing with the popular topic of inflation targeting. Stevenson, Muscatelli & Gregory (1988) chapters 5 and 6 may also be useful. A classic reference on time inconsistency can be found in Kydland & Prescott (1977).

Take notes on:

1. The transmission mechanisms of monetary policy
2. The Phillips Curve and the Expectations-Augmented Phillips Curve
3. Adaptive and Rational Expectations
4. The Lucas Surprise Supply Model; invariance proposition; and the Lucas Critique
5. Ricardian Equivalence *and* British Monetary Policy since 1945
6. Time Inconsistency and Central Bank Independence

### Class Assignment

Prepare a short presentation and detailed notes on your assigned topic (see syllabus for schedule) and be prepared to give a presentation in class. Also remember to bring copies for your cohort.

### References

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- Burda, M. & Wyplosz, C. (2005), *Macroeconomics: A European Text*, Oxford University Press.
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- Stevenson, A., Muscatelli, V. & Gregory, M. (1988), *Macroeconomic Theory and Stabilisation Policy*, Philip Allan.
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