**Macroeconomics: Xiangtan: November 2017**

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**Topics for discussion in small groups.**

**Topic 0. Rules vs Discretion.**

1. Explain what is meant by the following:
   1. Precommitment.
   2. Discretionary policy
   3. Time inconsistency.
2. Suppose that the government has the preferences.



Where b>0. Suppose further that the Phillips curve is given by



(a) What is the Rational Expectations equilibrium under discretion?

Explain how there is an *inflationary bias* if .

(b) what is the optimal policy with Pre-commitment?

(c) How does the inflationary bias vary with *b* and β? Explain.

1. Why might governments want to delegate monetary policy to an independent Central Bank? How has this worked in practice?
2. Explain why inflation rose in the 1970s (UK and US) and how it fell in the 1980s.

**Topic 1. Nominal rigidity.**

1. Outline and evaluate the main new Keynesian theories of price and wage rigidity.
2. What is the evidence for the existence of nominal rigidity? (you may discuss either US, UK or Eurozone).
3. If some sectors of the economy are very rigid, what implications does this have for the rest fo the economy?

**Topic 2. Unemployment and welfare.**

1. What are the welfare implications of competitive labour markets for macroeconomic policy?
2. Outline the main theories of involuntary unemployment, and show their implications for welfare over the business cycle.
3. What is meant by the efficiency wage and how might it lead to wages exceeding the competitive wage.

**Topic 3. Real Business Cycle Theory.**

1. What is meant by a Business cycle? How does Real Business Cycle Theory seek to explain the business cycle?
2. Explain the Solow-residual. Is it a good measure of productivity?
3. Why did most economists abandon real business cycle theory as a macroeconomic framework?

**Topic 4: Fiscal policy.**

1. Explain the conditions that must hold for Ricardian Equivalence. Do you believe that Ricardian Equivalence applies to the UK or any other countries?
2. What is meant by a sustainable fiscal policy?
3. What factors determine the optimal fiscal policy that should be pursued by a government?

**Topic 5: Crisis – which crisis?**

1. What caused the financial crisis of 2008 in Europe and America? Explain how a sudden decrease in the value of financial assets can cause a contraction in the economy.
2. Explain how the European central Bank differs from other central banks such as the Bank of England and the Federal Reserve in the US.
3. What caused the crisis in European sovereign debt? How was it solved?
4. How will the new levels of sovereign debt in western economies affect the macroeconomic policies of those countries?

**Topic 6: Nominal rigidity revisited.**

1. Consider an economy with two sectors: one has fixed prices f and the second is competitive with flexible prices z. The equilibrium price in the competitive sector is



Show that in equilibrium, z will be proportional to  whenever 

1. Explain the difference between the distribution of durations and the cross sectional distribution across firms.
2. In the UK, according to the CPI data, the number of firms re-setting prices per month. What is the average duration of a price spell? Does this imply anything about how flexible prices are on average?

**Additional reading.**

**Topic 0. Rules vs Discretion.**

Barro R, Gordon D (1983), . Rules, discretion and reputation in a model of monetary policy, *Journal of Monetary Economics*, Volume 12, Issue 1, 1983, Pages 101-121.

Clarida, Gerltler and Gali (1999), The science of Monetary policy, *Journal of Economic Literatur*e, volume 37, pages 1661-1707.

**Topic 1. Nominal rigidity.**

Dixon, H.(2000) [Reflections on New Keynesian Economics](http://huwdixon.org/surfing-economics/surfing-economics-chapter-four.html), Chapter 4, *Surfing Economics.*

Bunn R and Ellis C (2009), Price-setting behaviour in the United Kingdom, Bank of England Quarterly Bulletin, 26-36.

**Topic 2: Unemployment and welfare.**

Dixon H (2000), [New Keynesian Economics, Nominal Rigidities and Involuntary Unemployment](http://huwdixon.org/SurfingEconomics/chapter5.pdf), Surfing Economics, Chapter 5.

**Topic 3: RBC.**

Rebello,Sergio (2005[): RBC models: Past, present and future](http://www.kellogg.northwestern.edu/faculty/rebelo/htm/rbc.pdf).

Greg Mankiw “Real Business Cycles: a New Keynesian Perspective”, *Journal of Economic Perspectives*, 1989, volume 3, pages 79-90.

Romer, D: Real Business cycle Theory, Chapter 5 Advanced Macroeconomics.

**Topic 4: Fiscal Policy.**

Minford P and Peel D (2002): [Fiscal policy and the government budget](http://www.patrickminford.net/book/chap07.pdf)

[constraint,](http://www.patrickminford.net/book/chap07.pdf) Chapter 7 Advanced Macroeconomics.

**Topic 5: Crisis – which crisis?**

Read the [EEAG report for Europe](https://www.cesifo-group.de/ifoHome/policy/EEAG-Report.html). This is published each year.

[IMF fiscal monitor](http://www.imf.org/en/Publications/FM/Issues/2016/12/31/Taking-Stock-A-Progress-Report-on-Fiscal-Adjustment). Published annually since 2009.

Dufor M and Orhangazi (2014). Capitalism, Crisis and Class: The United States Economy After 2007-2008 Financial Crisis, *Review of Radical Political Economics*, 46(4) 461–472.

**Topic 6: Nominal rigidity revisited.**

Dixon H (1992). [Nominal Wage rigidity in a partly unionized economy](http://huwdixon.org/publication_archive/articles/Manchesterschool1992.pdf), *The Manchester school*, volume 60, 295-306.

Dixon H (2012), [A unifed framework for using micro-data to](http://huwdixon.org/downloads/dixon(2012).pdf)

[compare dynamic time-dependent price-setting models](http://huwdixon.org/downloads/dixon(2012).pdf), *BE Journal of macroeconomics*.

Download UK data [here](http://huwdixon.org/downloads.html).