

**Monetary and Fiscal Policy: Theory and Applications-EC178b  
Summer Session II, 2006**

**SYLLABUS AND OUTLINE**  
(Subject to change)

**INSTRUCTOR:**

Pinar Derin

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*Office Hours:* Thursdays 12:00-1:00 pm and by appointment

**CLASSES:**

*Monday, Tuesday, Thursday* 1:55 am-4: 15pm (Volen 106)

**DESCRIPTION:**

The purpose of this course is to introduce students to current issues in macroeconomic policy. It will explore both the theoretical debates and the practical issues faced by policymakers. It will cover a wide range of monetary and fiscal policy topics, from the desirability of moving from low to zero inflation to the outlook for reforming Social Security and Medicare. In addition to the assigned readings, students will be expected to follow the economy closely through the *Economist and Wall Street Journal*.

**READINGS:**

In this class we will make use of different sources that's why there is no specific text books assigned to the class but the recommended books are as follows:

- 1) The Economics of Money, Banking and Financial Markets, Frederic S. Mishkin, Seventh Edition, Addison Wesley, 2006
- 2) Public Finance and Public Policy, Jonathan Gruber, Worth Publishers, 2005
- 3) Macroeconomics, Olivier Blanchard, Prentice Hall, Fourth Edition, 2006

Note: You don't have to buy these books. The necessary documents used will be online. Still they are all good books and it can be nice to have them.

**The prerequisite** is completion of Economics 82b or 83 a or an equivalent course (or the permission of the professor)

## **GRADING INFORMATION**

- 1) 60% of your grade: Paper written on a specific topic in monetary and fiscal policy. I recommend choosing a topic that you are interested. You can come to my office every week and we can discuss about the paper. I strongly recommend seeing me in the second week of the classes to discuss the topic that you have chosen. (I will some suggestions on the paper online)
- 2) 30% of your grade: Final Exam. Study questions will be given before the exam and the exam questions will be any 10 of the questions given to you.
- 3) 10% of your grade: Class participation and end of class presentations.  
Note that attendance is not a must in this class but I strongly recommend attending the classes regularly. In the last 15-20 minutes of each class we will make presentation on a relevant economic article (could be better if it is related with the class topics). You can pick an article from Economist, Wall Street Journal, Financial Times or any other relevant source. Please let me know the article you have chosen beforehand.

I will use the student's mailing list to distribute important announcements and room changes. Try to check your mails everyday! All the relevant course documents can be downloaded from web ct.

## **DISABILITY CLAUSE:**

If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

## **HONESTY CLAUSE:**

You are expected to be honest in all of your academic work. The University policy on academic honesty is distributed annually at section 5 of the Rights and Responsibilities handbook (see <http://www.brandeis.edu/studentlife/sdje/ai/>). Instances of the alleged dishonesty will be forwarded to the Office of Campus Life for possible referral to the Student Judicial System. Potential sanctions include failure in the course and suspension from the University. If you have any questions about my expectations, please ask.

**COURSE OUTLINE (Tentative)**  
**(subject to change w/ the instructors discretion):**

**INTRODUCTION – BRIEF REVIEW OF MACRO POLICY**

**Blanchard Chapter 25: Monetary Policy: A Summing Up**

**Blanchard Chapter 26: Fiscal Policy: A Summing Up**

Christina D. Romer, “Changes in Business Cycles: Evidence and Explanations,” *Journal of Economic Perspectives*, Spring 1999, Vol. 13, No 2, pp. 23-44.

The Great Depression – what happened?

Christina D. Romer, “The Nation in Depression,” *Journal of Economic Perspectives*, Spring 1993, Vol. 7, No 2, pp. 18-39.

**THE FED AND MONETARY POLICY**

The structure of the Federal Reserve

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 14, pp. 335-346.

How does monetary policy affect the economy?

Christina D. Romer and David H. Romer, “Credit Channel or Credit Actions? An Interpretation of the Postwar Transmission Mechanism,” in *Changing Capital Markets: Implications for Monetary*, Symposium Sponsored by the Federal Reserve Bank of Kansas City, 1993, pp. 71-129.

Does independence matter?

Alberto Alesina and Lawrence H. Summers, “Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence,” *Journal of Money, Credit, and Banking*, May 1993, pp. 151-162.

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 14

Tools of Monetary policy

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 17

Conduct of Monetary Policy: Goals and Targets

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 18

International Finance and Monetary Policy

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, Chapter 19,21

### Inflation targeting

Ben S. Bernanke and Frederic S. Mishkin, "Inflation Targeting: A New Framework for Monetary Policy?" *Journal of Economic Perspectives*, Spring 1997, Vol. 11, No. 2, PP. 97-116.

### Monetary Theory

Frederic S. Mishkin, *The Economics of Money, Banking, and Financial Markets*, A summary of Part VI, check the class notes

Alan S. Blinder, "What Central Bankers Could Learn from Academics--and Vice Versa," *Journal of Economic Perspectives*, Spring 1997, Vol. 11, No. 2, pp. 3-19.

### Effects of the stock market

Poterba, James M., "Stock Market Wealth and Consumption," *The Journal of Economic Perspectives*, Spring 2000, 14(2): pp. 99-118.

Diamond, Peter A., "What Stock Market Returns to Expect for the Future?" Center for Retirement Research, Issue in Brief, September 1999 (2): pp. 1-18

## **FISCAL POLICY AND THE BUDGET**

### What is the outlook for fiscal policy?

*The Budget and Economic Outlook: Fiscal Years 2007 to 2016, January 2006*

Jonathan Gruber, *Public Finance and Public Policy*, Chapter 4, Tools of Budget Analysis

### Tax Cuts

Gale, William, and Alan Auerbach, "Tax Cuts and the Budget Outlook" *Brookings Institution Policy Brief* no. 76, April 2001.

Gale, William, and Peter R. Orszag, "Tax Break: Sunsets in the Tax Code." *Tax Notes*, June 9, 2003.

Friedman, Joel, Richard Kogan, and Denis Kadochnikov, "Administration's Tax Cutting Agenda Would Cost \$2.7 trillion Through 2013," *Center on Budget and Policy Priorities*, March 7, 2003.

### Can fiscal policy be effective in an open economy?

Mankiw, *Macroeconomics*, Ch.12, pp. 312-348 (4th edition).

"John Snow Comes Adrift," *The Economist*. May 24, 3003.

### Do deficits matter?

Benjamin M. Friedman, "Learning from the Reagan Deficits," *American Economic Review*, May 1992, pp. 299-304.

Robert Eisner, "Deficits: Which, How Much, and So What?" *American Economic Review*, May 1992, pp. 295-98.

Robert Barro, "The Ricardian Approach to Budget Deficits," *Journal of Economic Perspectives*, Spring 1989, pp. 37-55.

### What about the distribution of income?

David T. Ellwood, "Winners and Losers in America: Taking the Measure of the New Economic Realities," Aspen Institute, 2000.

Paul Krugman, "For Richer," *The Sunday New York Times Magazine*, Section 6, pg. 62. October 20, 2002.

#### Outlook for the Tax System

Jonathan Gruber, *Public Finance and Public Policy*, Chapter 18, Taxation in United States and Around the World

Henry Aaron and Bill Gale, "The Rocky Road to Tax Reform," in Henry J. Aaron and Robert D. Reischauer, eds., *Setting National Priorities: The 2000 Election and Beyond*, Washington, DC: The Brookings Institution, 1999, pp. 211-268.

"For Better or Worse: Marriage and the Federal Income Tax," Congressional Budget Office, June 1997.

#### The outlook for entitlement reform: Social Security

Jonathan Gruber, *Public Finance and Public Policy*, Chapter 13

*Fast Facts & Figures about Social Security: 2005*, Office of Research and Statistics, Social Security Administration.

The President's Commission "Strengthening Social Security and Creating Personal Wealth for All Americans" December 2001

#### The outlook for entitlement reform: Medicare

Jonathan Gruber, *Public Finance and Public Policy*, Chapter 15,16

Marilyn Moon, "Medicare Matters: The Value of Social Insurance" *Testimony before the Senate Finance Committee*, May 1999

McClellan, Mark, "Medicare Reform: Fundamental Problems, Incremental Steps," *The Journal of Economic Perspectives*, Spring 2000, 14(2): pp. 21-44.

David M. Cutler, "Walking the Tightrope on Medicare Reform," *The Journal of Economic Perspectives*, Spring 2000, 14(2): pp. 45-56.

