

Macroeconomics II 7008  
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The purpose of this course is to introduce students to alternative approaches to macroeconomics. In the course we will discuss short and long run issues. The course will discuss multiplier-accelerator models of the business cycle that suggest that fluctuations are an endogenous feature of advanced industrial economies, in contrast with the conventional approach based on exogenous real and monetary shocks. We will also compare heterodox and orthodox views on fiscal, monetary, and exchange rate policies, and their contrasting theories of inflation. Finally, we will discuss the Solow/Ramsey growth model and the New Growth models, which emphasize supply constraints, and develop a heterodox critique based on Kaleckian and Kaldorian growth models that highlight the role of demand and income distribution. Growth empirics, the debates on convergence and divergence, and the influence of economic policy on growth will be also discussed.

Assigned articles are available in WebCT (asterisk represents required reading). The book by Snowden and Vane, *Modern Macroeconomics: It's Origins, Development and Current State*, will be used as a general reference, but we will rely mostly on original articles. Lance Taylor's more advanced book *Reconstructing Macroeconomics* and Heinrich Bortis' *Institutions, Behavior and Economic Theory* will be used for specific topics.

Evaluation consists of two midterms, one in-class and the other take-home, and an in-class final. The weights are: first midterm exam 30%, second midterm exam 30%, and final 40%. A study guide with possible exam questions will be distributed before each in-class exam. Office hours will be announced in class, and I will be available in my office for informal discussions. If you need to schedule an appointment or discuss some special need e-mail me at [vernengo@economics.utah.edu](mailto:vernengo@economics.utah.edu).

1. Income Determination: Say's Law vs. Effective Demand

Keynes\*, J. M. (1936), *The General Theory of Employment, Interest and Money*,  
Harcourt Brace, 1964, ch. 2, 3 and 19.

Kalecki, M. (1944), "Prof. Pigou on the Classical Stationary State: A Comment",  
*Economic Journal*, April.

Friedman\*, M. (1968), "The Role of Monetary Policy," *American Economic Review*,  
58(1), 1-17.

Snowdon, B. and H. Vane (1995), *Modern Macro*, chs. 2 to 4.

Galbraith\*, J. (1997), "Time to Ditch the NAIRU," *Journal of Economic Perspectives*,  
11(1), pp. 93-108.

Bortis\*, H. (1999), *Institutions*, chs. 3 and 4.

2. Economic Cycles: Shocks vs. Accelerator-Multiplier Dynamics

Kalecki\*, M. (1933), *Selected Essays on the Dynamics of the Capitalist Economy, 1933-70*, Cambridge, Cambridge University Press, 1971, ch. 1.

- Kaldor\*, N. (1940), "A Model of the Trade Cycle," *Economic Journal*, 50, Mar., pp. 78-92.
- Goodwin, R. (1951), "The Non-Linear Accelerator and the Persistence of the Growth Cycle," *Econometrica*, 19, pp. 1-17.
- Chirinko\*, R. (1993), "Business Fixed Investment Spending," *Journal of Economic Literature*, 31(4), pp. 1875-1911.
- Blomström\*, M, R. Lipsey, and M. Zejan (1996), "Is Fixed Investment the Key to Economic Growth?," *Quarterly Journal of Economics*, 111(1), pp. 269-76.
- Romer, D. (1996), *Advanced Macroeconomics*, chs. 4 and 5.
- Taylor\*, L. (2004), *Reconstructing Macroeconomics*, ch. 4.

### 3. Fiscal Policy: Sound vs. Functional Finance

- Domar, E. (1944), "The 'Burden of the Debt' and the National Income," *American Economic Review*, 34(4), pp. 798-827.
- Aschauer\*, D. (1989), "Is Public Expenditure Productive," *Journal of Monetary Economics*, 23, pp. 177-200.
- Pasinetti\*, L. (1997), "The Social 'Burden' of High Interest Rates," in P. Arestis, G. Palma and M. Sawyer, (eds), *Capital Controversy, Post-Keynesian Economics and the History of Economics*, London: Routledge.
- Arestis, P. and M. Sawyer (2003), "Reinventing Fiscal Policy," *Journal of Post Keynesian Economics*, 26(1), pp. 3-25.
- Camara\*, A. and M. Vernengo (2003-4), "Fiscal Policy and the Washington Consensus," *Journal of Post Keynesian Economics*, 27(2), pp. 333-343.
- Auerbach\*, A. (2009), "Implementing the New Fiscal Policy Activism," *American Economic Review*, 99(2), pp. 543-49.

### 4. Monetary Policy: Exogenous vs. Endogenous Money

- Friedman, M. (1970), "A Theoretical Framework for Monetary Analysis," *Journal of Political Economy*, 78(2), pp. 193-238.
- Pollin\*, R. (1991), "Two Theories of Money Supply Endogeneity," *Journal of Post Keynesian Economics*, 13(3), pp. 366-96.
- Goodfriend, M. and R. King (1997), "The New Neoclassical Synthesis and the Role of Monetary Policy," *NBER Macroeconomics Annual*, pp. 231-83.
- Goodhart\*, C. (1998), "Two Concepts of Money," *European Journal of Political Economy*, 14, pp. 407-32.
- Clarida\*, R., J. Gali, and M. Gertler (1999), "The Science of Monetary Policy: A New Keynesian Perspective," *Journal of Economic Literature*, 37(4), pp. 1661-707.
- Lavoie\*, M. and P. Kriesler (2007), "The New Consensus in Monetary Policy and its Post-Keynesian Critique," *Review of Political Economy*, 19(3), pp. 387-404.

### 5. Inflation: Structural vs. Monetarist Theories

- Cagan, P. (1956), "The Monetary Dynamics of Hyperinflation," in M. Friedman, (ed), *Studies in the Quantity Theory of Money*, Chicago: CUP.
- Sargent\*, T. (1982), "The End of Four Big Inflation," in R. Hall, (ed), *Inflation: Causes and Effects*, Chicago: CUP.

- Stiratti\*, A. (2001), "Inflation, Unemployment and Hysteresis," *Review of Political Economy*,  
 Camara, A. and M. Vernengo (2004), "Allied, German and Latin Theories of Inflation,"  
 in M. Forstater and R. Wray, (eds), *Contemporary Post Keynesian Analysis*,  
 Cheltenham: Edward Elgar.  
 Vernengo\*, M. (2006), "Money and Inflation," in P. Arestis and M. Sawyer (eds), *A Handbook of Alternative Monetary Economics*, Cheltenham: Edward Elgar.

#### 6. Exchange Rate Dynamics

- Mundell, R. (1963), "Capital Mobility and Stabilization Policy Under Fixed and Flexible Exchange Rates," *Canadian Journal of Economics*, 29(4), pp. 475-85.  
 Frankel\*, J. (1998), "No Single Currency Regime is Right for All Countries or At All Times," *Essays in International Finance*, No. 215, Princeton: Princeton University Press.  
 Vernengo\*, M. (2001), "Foreign Exchange, Interest and Prices," in L-P. Rochon and M. Vernengo (eds), *Credit, Interest Rates and the Open Economy*, Cheltenham: Edward Elgar.  
 Calvo, G. and C. Reinhart (2002), "Fear Of Floating," *Quarterly Journal of Economics*, 107(2), pp. 379-408.  
 Frenkel\*, R. and L. Taylor (2006), "Real Exchange Rate, Monetary Policy, and Employment," in J. A. Ocampo, Jomo K. S., and S. Khan, (eds), *Policy Matters: Economic and Social Policies to Sustain Equitable Development*, Oxford: OUP.  
 Fisher\*, S. (2008), "Exchange Rate Systems, Surveillance, and Advice," *IMF Staff Papers*, 55(3), pp. 367-83.

#### 7. Neoclassical Growth Theory

- Ramsey, F. (1928), "A Mathematical Theory of Saving," *Economic Journal*, 38, Dec., pp. 543-59.  
 Solow\*, R. (1956), "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, 70(1), pp. 65-94  
 Tobin, J. (1965), "Money and Economic Growth," *Econometrica*, 33(4), pp. 671-84.  
 Solow, R. (1988), "Growth Theory and After," *American Economic Review*, 78(3), pp. 307-17.  
 Snowdon, B. and H. Vane (1995), *Modern Macro*, ch. 11.  
 Romer\*, D. (1996), *Advanced Macroeconomics*, chs. 1 to 3.  
 Taylor\*, L. (2004), *Reconstructing Macroeconomics*, pp. 97-103.

#### 8. New Growth Theory

- David\*, P. (1985), "Clio and the Economics of QWERTY," *American Economic Review*, 75 (2), pp. 332-37.  
 Lucas Jr.\*, R. (1988), "On the Mechanics of Economic Development," *Journal of Monetary Economics*, 3, pp. 3-42.  
 Krugman, P. (1991), "History and Industry Location," *American Economic Review*, 81 (2), pp. 80-3.  
 Romer\*, P. (1994), "The Origins of Endogenous Growth," *Journal of Economic Perspectives*, 8 (1), Winter, pp. 3-22.

- Fine\*, B. (2000) "Endogenous Growth Theory: A Critical Assessment" *Cambridge Journal of Economics*, 24, pp. 245-265.
- Taylor, L. (2004), *Reconstructing Macroeconomics*, ch. 11.
- Jones, C., and P. Romer (2010), "The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital," *American Economic Journal: Macroeconomics*, 2(1), pp. 224-45.

#### 9. Kaleckian and Kaldorian Growth Models

- Harrod, R. (1939), "An Essay in Dynamic Theory," *Economic Journal*, 49, Mar., pp. 14-33.
- Bhaduri, A. (1969), "On the Significance of Recent Controversies on Capital Theory: A Marxian View," *Economic Journal*, Vol. 79, No. 315, Sep., pp. 532-539.
- Kaldor\*, N. (1970), "The Case for Regional Policies," *Scottish Journal of Political Economy*, 17, pp. 337-48.
- Dixon\*, R. and A. Thirlwall (1975), "A Model of Regional Growth Rate Differences on Kaldorian Lines," *Oxford Economic Papers*, 27, pp. 201-13.
- Rowthorn\*, R. (1981), "Demand, Real Wages and Economic Growth," *Thames Papers in Political Economy*, London, Thames Polytechnic.
- Blecker, R. (1989), "International Competition, Income Distribution and Economic Growth," *Cambridge Journal of Economics*, 13(3), pp. 395-412.
- Bhaduri\*, A. and S. Marglin (1990), "Unemployment and the Real Wage: The Economic Basis for Contesting Political Ideologies," *Cambridge Journal of Economics*, 14, pp. 375-93.

#### 10. Growth Accounting and Productivity

- Solow, R. (1957), "Technical Change and the Aggregate Production Function," *Review of Economics and Statistics*, 39(3), Aug., pp. 312-20.
- Baumol\*, W. (1986), "Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show," *American Economic Review*, 76(5), Dec., pp. 1072-1085.
- Barro\*, R. (1991), "Economic Growth in a Cross Section of Countries," *Quarterly Journal of Economics*, 106(2), pp. 407-43.
- Young, A. (1995), "The Tyranny of Numbers: Confronting the Statistical Realities of the East Asian Growth Experience," *Quarterly Journal of Economics*, 110(3), Aug., pp. 641-80.
- Felipe\*, J. and J. McCombie (2003), "Some Methodological Problems with the Neoclassical Analysis of the East Asian Miracle," *Cambridge Journal of Economics*, 27, pp. 695-721.
- Jeon\*, Y. and M. Vernengo (2008), "Puzzles, Paradoxes and Regularities: Cyclical and Structural Productivity in the US (1950-2005)," *Review of Radical Political Economics*, 40(3), 237-43.

#### 11. Economic Policy and Growth

- Easterly\*, W., M. Kremer, L. Pritchett and L. Summers (1993), "Good Policy or Good Luck? Country Growth Performance and Temporary Shocks," NBER Working Paper No 4474.

- Hausmann\*, R., L. Pritchett, D. Rodrik (2005), "Growth Accelerations," *Journal of Economic Growth*, 10(4), pp. 303-29.
- Easterly, W. (2005), "National Policies and Economic Growth," in P. Aghion and S. Durlauf, (eds), *Handbook of Economic Growth*, Elsevier.
- Rodrik\*, D. (2007), *One Economics, Many Recipes*, Princeton: PUP, ch. 2 and 3.
- Pérez\*, E. and M. Vernengo (2008), "Back to the Future: Latin America's Current Development Strategy," IDEAs Network Working Paper No 07/2008.

## 12. Political Economy of Growth

- Temin, P. (1997), "Is it Kosher to Talk about Culture?" *Journal of Economic History*, 57(2), Jun., pp. 267-287.
- Bortis\*, H. (1999), *Institutions*, chs. 6 and 7.
- Naples\*, M. (2003), "Institutional Foundations of Economic Growth and Price Stability." In J. Harris and N. Goodwin, (eds), *New Thinking in Macroeconomics: Social, Institutional and Environmental Perspectives*, Northampton MA, Edward Elgar, 99-120.
- Acemoglu\*, D., S. Johnson and J. Robinson (2004), "Institutions as the Fundamental Cause of Long Run Growth," NBER Working Paper, No 10481.