

# EC317: MODELING AND FORECASTING THE MACROECONOMY

Winter 2009

**Professor:** Scott Fullwiler, Ph.D.

**Time and Place:** TH, 9:35-11:15am, LH326

**Office Hours:** MTH 1:20-2:20pm, and by appointment

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## COURSE DESCRIPTION AND GOALS:

Because everyone is affected in some manner by the economy's performance, an understanding of macroeconomics and macroeconomic policy is a prerequisite for being an **informed citizen**. The **contribution of economics to the business curriculum** lies in the fact that economics is about the environment within which individual businesses operate. The more managers know about the structure of the economy, the nature of economic cycles, the patterns of financial stability and instability, the long- and short-term prospects for the economy, and the possible options and impacts of macroeconomic policy (to name just a few possible macro topics), the better are the chances for success.

The main **goal** of this course will be to learn how to think about the economy as an economist does, so that we might best understand both the environment within which business operates and how the economy and macroeconomic policies affect our world. We will achieve this goal through several objectives. **First**, we will gather, organize, interpret, and evaluate data and various reports on the current and projected future states of the economy. **Second**, we will develop a theoretical model of how the economy works and learn its characteristics and implications for policy. **Third**, we will analyze historical data, events, and policies within and in comparison to our model. **Fourth**, we will consider views that fall somewhat outside the mainstream of economics to gain a broader understanding of the economy and policy possibilities, and to see where the mainstream has left gaps (or perhaps gaping holes!). **Fifth**, we will learn to use one of the most well-known and historically accurate large models of the macroeconomy (the Fairmodel) in order to understand the workings of the economy, run simulations, and make both predictions and policy recommendations just as an economist would.

*A note on prerequisites:* You are expected to have a basic understanding of EC 100/101. If you do not recall some of this material when it arises, then it is your responsibility to bring yourself up to date, not mine. There is a natural progression to the material covered throughout the economics curriculum, and it is expected that you have taken basic knowledge with you from these courses (just as in progressions through a foreign language or a math curriculum, for instance). Finally, please be advised that **there is a significant increase in difficulty in this course compared to EC100/101**.

## COURSE MATERIALS:

- Olivier Blanchard. 2008. *Macroeconomics*. 5<sup>th</sup> Edition. Prentice-Hall Publishers.
- Sources related to the Fairmodel (<http://fairmodel.econ.yale.edu>):
  - Ray C. Fair. 2004. *Estimating How the Macroeconomy Works*. Harvard University Press.  
<http://fairmodel.econ.yale.edu/rayfair/pdf/2003A.PDF>
  - Ray C. Fair. 2008. *US Model Workbook* and Appendix A.  
<http://fairmodel.econ.yale.edu/wrkbook/wb.htm>  
<http://fairmodel.econ.yale.edu/wrkbook/xalapa.pdf>
  - Ray C. Fair. 2008. *MCD Model Workbook*.  
<http://fairmodel.econ.yale.edu/mcwrkdkd/mcdwrk.pdf>
- Various other assigned readings are available on the web or will be posted to my.wartburg.edu.
- You will be expected to keep abreast of current events and data emerging relevant to the macroeconomy. I will provide you with numerous internet sources, including the financial press, government and Federal Reserve websites, and economics/financial blogs.

**COURSE GRADES:**

The following scale will be used in assigning grades:

|                 |    |                 |    |                 |    |
|-----------------|----|-----------------|----|-----------------|----|
| 93% and above   | A  | 80% to 82.9999% | B- | 67% to 69.9999% | D+ |
| 90% to 92.9999% | A- | 77% to 79.9999% | C+ | 63% to 66.9999% | D  |
| 87% to 89.9999% | B+ | 73% to 76.9999% | C  | 60% to 62.9999% | D- |
| 83% to 86.9999% | B  | 70% to 72.9999% | C- | Below 60%       | F  |

All decimals on final grades in each category listed above will be rounded up (e.g., a score of 79.3% will be rounded up to 80%). However, your cumulative grade for the course will not be rounded up or down (e.g., a course average of 79.999% will receive a final grade of C+).

Your course grade will be determined by your performance on the coursework described below and also the attendance policy (attendance policy is described below). These will be assigned the following weights:

| <i>Item</i>   | <i>Weight</i> |
|---|---------------|
| Presentations and Reports on Economic Data and News | 14%           |
| Article Summaries, Reviews, or Comparisons          | 18%           |
| Final Team Presentation and Report                  | 20%           |
| Simulations with the Fairmodel                      | 24%           |
| Macroeconomic Graphing Assignments                  | <u>24%</u>    |
|   | 100%          |

*Presentations and Reports on Economic Data and News:*

Each team will make five presentations to the class during the course of the semester regarding recent economic data and news. I will provide you with a handout detailing the requirements and procedures to follow. The presentations will begin the third week of the semester.

*Article Summaries, Reviews, or Reflections:*

Throughout the semester we will read several articles, and there will be assignments of varying length that will require you to summarize the article, review the article in the context of the model being built in the course, or compare/contrast a series of two or more articles on a single topic. Other times you may just be asked to answer a series of questions regarding the article(s).

*Final Team Presentation and Report:*

During the last several weeks of the semester, your team will put together an analysis and forecast of the United States economy for the remainder of 2009. This will include both a report and Power Point presentation and will be presented during finals week.

*Simulations with the Fairmodel:*

There will be several assignments in which teams will use the Fairmodel to simulate policy changes or effects of various macroeconomic shocks. For each, teams will turn in a short report discussing the simulation and the results within the context of the course.

*Macroeconomic Graphing Assignments:*

These will be done on an individual basis, though there will be instances in which students can work with each other on certain portions (particularly simulations). These will primarily deal with material covered in the text and will be handed out on as close to a weekly basis as possible.

*Attendance Policy:*

For every class beyond 2 that you miss, your final percentage will be reduced 0.5%; if you miss 0 or 1 total classes, 1% or 0.5% will be added to your final percentage, respectively. Excused absences are

given at my discretion; in general, an excused absence will only enable you to hand assignments in late without penalty but will still count toward your four allowable absences.

#### **NOTES ON MY POLICY/VIEWS ON ASSIGNED WORK:**

1. Regarding **late work**, it is not possible to grade consistently, or be fair to people who take trouble to do assignments on time, if I am absorbing a continual stream of late work. Therefore, late assignments will be **penalized three percent (3%) of the total possible points for every day that they are late**. Please note **that assignments handed in even one minute after I have collected them or a due date and time has otherwise passed are considered to be one day late**. **Assignments handed in the next day** (beginning at 12:01am the following day) **are considered two days late, and so forth** (again, each respective day for assessing an additional penalty will begin at 12:01am). Further, once I have either provided the class with answers or have returned an assignment to the class or even to one member of the class, late work will no longer be accepted.
2. Anything and everything you hand in will be assessed not only for content but also writing skills such as spelling, correct language usage, and punctuation. See the file on <http://my.wartburg.edu> titled **"Grading Criteria for Assignments"** for the criteria I will use on all graded work.
3. My classes are intended to be challenging. This means that, if all goes as planned, **there will be several instances in which you find the course material or assignments difficult, and some periods in which you find it very difficult**. I will provide you with many opportunities **in class, every day**, to slow down the pace of the course (within limits) and to ask questions, receive clarification, and so forth. While I accept much responsibility for organizing material and assignments as coherently as possible, education and learning are two-way streets, and thus I place substantial responsibility on you to take advantage of these opportunities. If you do not understand but you do not tell me, then I will continue to proceed through course material and assignments—in short, I am not a mind reader and I therefore can only go on the feedback you verbally provide. Note also, since this is an economics course, I view it to be a very bad economic decision to pay tuition only to sit in the classroom and be confused.

#### **IMPORTANT HOUSEKEEPING ITEMS:**

1. *Academic Integrity/Honesty*: Academic integrity is one of the basic principles of a college community. **By attending Wartburg College, students are demonstrating their dedication to the Honor Code. The Honor Code reminds students of their responsibility to promote academic honesty by opposing cheating and plagiarism and reporting dishonest work.**

ALL assignments are done by you (and nobody else) with no help or collaboration whatsoever unless EXPLICITLY allowed in writing by me. This means that you cannot defend yourself after the fact by claiming that I did not explicitly prohibit such activity on any assignment.

Any form of academic dishonesty will result in one or more of the following sanctions: a) loss of points for that specific assignment or exam; b) reduction in the final course grade; c) issuance of a grade of "F" for the entire course.

2. *Commitment to Students with Disabilities*: The Americans with Disabilities Act of 1990 (ADA) provides protection from illegal discrimination for qualified individuals with disabilities. Students requesting instructional accommodations due to disabilities must arrange for such accommodations by contacting Pathways Associate for Testing and Advising Carla Coates. She can be reached at the Pathways Center, 314 Vogel Library, Wartburg College, Waverly, IA 50677, 352-8230, [carla.coates@wartburg.edu](mailto:carla.coates@wartburg.edu). Presenting documentation of a student's disability early (before the beginning of classes) is helpful and often necessary to secure needed materials in a timely way. Accommodations should be requested PRIOR to affected assignment due dates. For more detailed information, please see <http://www.wartburg.edu/pathways/testing/AccomodationProcessStudents.pdf>

3. ***Harassment:*** Everyone in the class will conduct themselves in a mature and professional manner. I will not, nor will Wartburg College, tolerate any form of harassment in the classroom (including, but not limited to, harassment related to gender, race, or lifestyle). If you have a complaint, please bring it to my attention or to the attention of the Dean of Students.
4. ***Incompletes:*** Incompletes will be given only in rare cases of extreme personal or familial difficulties that prevent a student from completing the semester's work, and in those cases only if the student has a passing grade (C- or better) *and* has completed a substantial percentage of the course.
5. ***Extra Credit:*** You should expect that there will be no opportunities for extra credit during the semester. In particular, there will be absolutely NO opportunities for extra credit on an individual basis, as this would be unfair to others in the class. Rather than hoping for extra credit opportunities, take responsibility for your performance in the course throughout

## **COURSE OUTLINE:**

### **Class 1: How Economists Look at the Macroeconomy (1/6)**

- Blanchard, Ch. 1 "A Tour of the World," pp. 3-16.
- Blanchard, Ch. 2, "A Tour of the Book," pp. 19-35.
- Blanchard, Ch. 27, "Epilogue: The Story of Macroeconomics," pp. 579-592
- William T. Gavin. 2007. "Economic Forecasts: Public and Private." Federal Reserve Bank of St. Louis *Economic Synopses*, no. 8.  
<http://research.stlouisfed.org/publications/es/07/ES0708.pdf>
- Notes and Figures on Real GDP, Unemployment, and Inflation

### **Class 2: The Goods Market—Introduction (1/8)**

- Blanchard, Ch. 3, "The Goods Market," pp. 43-56 ONLY.
- Blanchard, Appendix 2 on geometric series, functions, logarithmic scales
- Blanchard, Appendix 3 on econometrics
- Ray C. Fair. 2008. *US Model Workbook*, read parts 1 through 2.3 ONLY.

### **Class 3: The Goods Market—Adding Expectations (1/13)**

- Blanchard, Ch. 14, "Expectations: The Basic Tools," pp. 304-308 ONLY.
- Blanchard, Ch. 16, "Expectations, Consumption, and Investment," pp. 335-352.
- Ray C. Fair. 2004. "Estimated Size of the Wealth Effect for the United States," *Estimating How the Macroeconomy Works*, pp. 91-96 ONLY.
- Congressional Budget Office. 2007. "Housing Wealth and Consumer Spending." Background Paper (January). <http://www.cbo.gov/ftpdocs/77xx/doc7719/01-05-Housing.pdf>

### **Class 4: The Goods Market—Adding the Open Economy (1/15)**

- Blanchard, Ch. 18, "Openness in Goods and Financial Markets," pp. 377-385 ONLY.
- Blanchard, Ch. 19, "The Goods Market in an Open Economy", pp. 397-415.
- Blanchard, Ch. 19, "Appendix: Derivation of the Marshall-Lerner Condition," p. 419.

### **Class 5: The Goods Market—The IS Curve (1/20)**

- Blanchard, Ch. 5, "The IS-LM Model," pp. 85-89 ONLY.

### **Class 6: Interest Rate Targets and the LM Curve (1/22)**

- Blanchard, Ch. 5, "Appendix: An Alternative Derivation of the LM Relation as an Interest Rate Rule?" pp. 108-109.
- St. Louis Fed *Monetary Trends* on Taylor's Rule

- Ray C. Fair. 2004. "Interest Rate Rule." *Estimating How the Macroeconomy Works*, pp. 49-51 ONLY.
- Ray C. Fair. 1999. "Actual Federal Reserve Policy Behavior and Interest Rate Rules." Federal Reserve Bank of New York *Economic Policy Review* (March): 61-72.  
<http://fairmodel.econ.yale.edu/rayfair/pdf/1999E.HTM>

### **Class 7: Macroeconomic Policy and the IS-LM Model (1/27)**

- Blanchard, Ch. 5, "The IS-LM Model," pp. 93-109 ONLY.
- Congressional Budget Office. 2008. "Options for Responding to Short-Term Economic Weakness." *CBO Paper* (January).  
[http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ\\_Stimulus.pdf](http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ_Stimulus.pdf)

### **Class 8: Expectations, Interest Rates, and Aggregate Demand (1/29)**

- Blanchard, Ch. 15, "Financial Markets and Expectations," pp. 313-321 ONLY.
- Joseph G. Haubrich. 2006. "Does the Yield Curve Signal Recession?" Federal Reserve Bank of Cleveland *Economic Commentary* (April 15).  
<http://www.clevelandfed.org/Research/Commentary/2006/0415.pdf>
- Arturo Estrella and Mary R. Trubin. 2006. "The Yield Curve as a Leading Indicator: Some Practical Issues." Federal Reserve Bank of New York *Current Issues in Economics and Finance*, vol. 5, no. 12 (July/August).  
[http://www.newyorkfed.org/research/current\\_issues/ci12-5.pdf](http://www.newyorkfed.org/research/current_issues/ci12-5.pdf)
- Joseph G. Haubrich. 2008. "The Yield Curve." Federal Reserve Bank of Cleveland *Economic Trends* (November 26).  
<http://www.clevelandfed.org/research/trends/2008/1208/01monpol.cfm>
- Rajdeep Sengupta and Yu Man Tam. 2008. "The Libor-OIS Spread as a Summary Indicator." Federal Reserve Bank of St. Louis *Economic Synopses*, no. 25.  
<http://research.stlouisfed.org/publications/es/08/ES0825.pdf>
- Charles T. Carlstrom and Sarah Wakefield. 2008. "More Measures Introduced to Help Financial Markets." Federal Reserve Bank of Cleveland *Economic Trends* (November 6).  
<http://www.clevelandfed.org/research/trends/2008/1108/02monpol.cfm>

### **Class 9: Interest Rates, Stocks, and Aggregate Demand (2/3)**

- Blanchard, Ch. 14, "Expectations: The Basic Tools," pp. 291-303 ONLY.
- Ray C. Fair. 2004. "Nominal vs. Real Interest Rate Effects." *Estimating How the Macroeconomy Works*, pp. 71-76 ONLY.
- Blanchard, Ch. 16, "Financial Markets and Expectations," pp. 322-329 ONLY.
- Ray C. Fair. 1999. "Fed Policy and the Effects of a Stock Market Crash on the Economy." *Business Economics* (published April 2000): 7-14.  
<http://fairmodel.econ.yale.edu/rayfair/pdf/1999c.pdf>
- Ray C. Fair. 2004. "Testing for a New Economy in the 1990s." *Estimating How the Macroeconomy Works*, pp. 97-109 ONLY.
- Congressional Budget Office. 2008. "Policy Options for the Housing and Financial Markets." *CBO Paper* (April). [http://www.cbo.gov/ftpdocs/90xx/doc9078/04-11-Housing\\_with\\_Letter.pdf](http://www.cbo.gov/ftpdocs/90xx/doc9078/04-11-Housing_with_Letter.pdf)

### **Class 10: Aggregate Demand in an Open Economy (2/5)**

- Blanchard, Ch. 18, "Openness in Goods and Financial Markets," pp. 386-396 ONLY.
- Blanchard, Ch. 20, "Output, the Interest Rate, and the Exchange Rate," pp. 421-436.
- Ray C. Fair. 2004. *Estimating How the Macroeconomy Works*, pp. 52-53 ("Interest Rate Effects") and pp. 60-62 ("The Exchange Rate and the Forward Rate") ONLY.

**Class 11: The Labor Market (2/10)**

- Blanchard, Ch. 6, "The Labor Market," pp. 113-130.
- Blanchard, Ch. 6, "Appendix: Wage and Price Setting Relations versus Labor Supply and Labor Demand," pp. 133-134.

**Class 12: Aggregate Demand and Aggregate Supply (2/12)**

- Blanchard, Ch. 7, "Putting All Markets Together: The AS-AD Model," pp. 135-158.
- Bart Hobijn. 2008. "Commodity Price Movements and PCE Inflation." Federal Reserve Bank of New York *Current Issues in Economics and Finance*, vol. 14, no. 8 (November). [http://www.newyorkfed.org/research/current\\_issues/ci14-8.pdf](http://www.newyorkfed.org/research/current_issues/ci14-8.pdf)

**Class 13: Aggregate Demand and Aggregate Supply in the Open Economy (2/17)**

- Blanchard, Ch. 21, "Exchange Rate Regimes," pp. 441-460.
- Blanchard, Ch. 20, "Appendix: Fixed Exchange Rates, Interest Rates, and Capital Mobility," p. 439.
- Ray C. Fair. 2004. "Overview of the MC Model." *Estimating How the Macroeconomy Works*, pp. 21-25 ONLY.
- Stephanie Bell and John Henry. 2003. "When Imports Are a Cost and Exports Are a Benefit: The Conditions Under Which Free Trade Is Beneficial." Center for Full Employment and Price Stability Working Paper No. 26 (July). <http://www.cfeps.org/pubs/wp-pdf/WP26-HenryBell.pdf>

**Class 14: The New Consensus Model—The Expectations Augmented Phillips Curve (2/19)**

- Blanchard, Ch. 8, "The Natural Rate of Unemployment and the Phillips Curve," pp. 163-178.

**Class 15: The New Consensus Model—The Key Role of Expectations of Monetary Policy (2/24)**

- Blanchard, Ch. 17, "Expectations, Output, and Policy," pp. 357-366 ONLY.
- Blanchard, Ch. 9, "Inflation, Activity, and Nominal Money Growth," pp. 183-198.
- Carolyn Clark. 1992. "Chapter 4: The War Against Inflation: 1980-1982." *Monetary Policy in Theory and Action*. Unpublished manuscript.
- Ben Bernanke. 2003. "An Unwelcome Fall in Inflation." Speech delivered July 23. <http://www.federalreserve.gov/boarddocs/speeches/2003/20030723/default.htm>
- Richard G. Anderson and Charles S. Gascon. 2008. "Fueling Expected Inflation." Federal Reserve Bank of St. Louis *Economic Synopses*, no. 21. <http://research.stlouisfed.org/publications/es/08/ES0821.pdf>

**Class 16: The New Consensus View of Monetary Policy—Rules vs. Discretion (2/26)**

- Blanchard, Ch. 24, "Should Policymakers Be Restrained?" pp. 515-524 ONLY.
- Blanchard, Ch. 25, "Monetary Policy: A Summing Up," pp. 535-551.
- Frederic S. Mishkin. 2007. "Will Monetary Policy Become More of a Science?" Federal Reserve Economic and Discussion Series No. 2007-44 (September). <http://www.federalreserve.gov/pubs/feds/2007/200744/200744pap.pdf>

**Class 17: The New Consensus View of Monetary Policy—The Fed's View (3/10)**

- Edward Gramlich. 1998. "Monetary Rules." Speech delivered February 28. <http://www.federalreserve.gov/boarddocs/speeches/1998/199802272.htm>
- Ben Bernanke. 2004. "Gradualism." Speech delivered May 20. <http://www.federalreserve.gov/boarddocs/speeches/2004/200405202/default.htm>

- William Poole. 2007. "Understanding the Fed." Federal Reserve Bank of St. Louis *Review*, vol. 11, no. 1 (January/February): 3-14.  
<http://research.stlouisfed.org/publications/review/07/01/Poole2.pdf>
- Frederic S. Mishkin. 2008. "Does Stabilizing Inflation Contribute to Stabilizing Economic Activity?" Speech delivered February 25.  
<http://www.federalreserve.gov/newsevents/speech/mishkin20080225a.htm>

#### **Class 18: Fair's Critique of the New Consensus View (3/12)**

- Ray C. Fair. 2004. "Evaluating a 'Modern' View of Macroeconomics." *Estimating How the Macroeconomy Works*, pp. 115-121 ONLY.
- Ray C. Fair. 2005. "Estimates of the Effectiveness of Monetary Policy." *Journal of Money, Credit, and Banking* 37 (August): 645-660. Available via EbscoHost.
- Ray C. Fair. 2007. "Testing Price Equations." April.  
<http://fairmodel.econ.yale.edu/rayfair/pdf/2007B.PDF>
- Ray C. Fair. 2007. "Evaluating Inflation Targeting Using a Macroeconometric Model." *Economics—the Open Access, Open Assessment E-Journal* (July 11).  
<http://fairmodel.econ.yale.edu/rayfair/pdf/2006A.htm>

#### **Class 19: Alternative Views of the Output/Inflation Tradeoff and Policy Implications (3/17)**

- Peter Kreisler and Marc Lavoie. 2007. "The New View on Monetary Policy: The New Consensus and the Post Keynesian Critique." *Review of Political Economy*, vol. 19, no. 3 (July): 387-404. Available via EbscoHost.
- Michelle L. Barnes and Giovanni P. Olivei. 2003. "Inside and Outside Bounds: Threshold Estimates of the Phillips Curve." Federal Reserve Bank of Boston *New England Economic Review*, vol. 4, issue 1: 3-18.  
<http://www.bos.frb.org/economic/neer/neer2003/neer03a.pdf>
- Andrew J. Filardo. 1998. "New Evidence on the Output Cost of Fighting Inflation." Federal Reserve Bank of Kansas City *Economic Review* (Third Quarter): 33-61.  
<http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/3q98fila.pdf>

#### **Class 20: Modeling Economic Growth—Introduction to the Neoclassical Approach (3/19)**

- Blanchard, Ch. 10, "The Facts of Growth," pp. 205-219.
- Blanchard, Ch. 11, "Saving, Capital Accumulation, and Output," pp. 223-242.

#### **Class 21: Modeling Economic Growth—The Solow Growth Model (3/24)**

- Blanchard, Ch. 12, "Technological Progress and Growth," pp. 247-262.
- Ray C. Fair. 2004. "Testing for a New Economy in the 1990s." *Estimating How the Macroeconomy Works*, pp. 110-114 only.

#### **Class 22: The New Consensus Model—Productivity and Macroeconomic Stabilization (3/26)**

- Blanchard, Ch. 13, "Technological Progress: The Short, the Medium, and the Long Run," pp. 267-284.
- Laurence H. Meyer. 2000. "The Economic Outlook and the Challenges Facing Monetary Policy." Speech given October 19.  
<http://www.federalreserve.gov/boarddocs/speeches/2000/20001019.htm>

#### **Class 23: Fiscal Policy: Active or Passive? (3/31)**

- Blanchard, Ch. 17, "Expectations, Output, and Policy," pp. 366-370 ONLY.
- Congressional Budget Office. 2008. "Options for Responding to Short-Term Economic Weakness." *CBO Paper* (January).  
[http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ Stimulus.pdf](http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ%20Stimulus.pdf)
- Blanchard, Ch. 22, "Depressions and Slumps," pp. 469-490.

- Blanchard, Ch. 23, “High Inflation,” pp. 495-510.
- Blanchard, Ch. 24, “Should Policymakers Be Constrained?” pp. 524-531 ONLY.

#### **Class 24: Fiscal Policy Effects on Saving (4/2)**

- Blanchard, Ch. 3, “The Goods Market,” pp. 56-59 ONLY.
- William G. Gale and Peter R. Orszag. 2003. “Economic Effects of Sustained Budget Deficits.” *National Tax Journal*, vol. 56, no. 3 (September): 463-485. (Read through page 474 ONLY here.)
- L. Randall Wray. 2006. “Teaching the Fallacy of Composition: The Federal Budget Deficit.” Center for Full Employment and Price Stability Policy Note No. 06/01 (March 27). <http://www.cfeps.org/pubs/pn-pdf/PolicyNote2006-1.pdf>
- L. Randall Wray. 2000. “A Primer on Government Surpluses.” Center for Full Employment and Price Stability Special Report 00/02 (May 5). <http://www.cfeps.org/pubs/sr-pdf/SpecialReport2000-2.pdf>
- Wynne Godley, Dimitri Papadimitriou, Greg Hannsgen, and Gennaro Zezza. 2007. “The US Economy: Is There A Way Out of the Woods?” Jerome Levy Economics Institute Strategic Analysis (November). [http://www.levy.org/pubs/sa\\_nov\\_07.pdf](http://www.levy.org/pubs/sa_nov_07.pdf)
- Wynne Godley, Dimitri B. Papadimitriou, Gennaro Zezza. 2008. “Fiscal Stimulus: Is More Needed?” Jerome Levy Economics Institute Strategic Analysis (April). [http://www.levy.org/pubs/sa\\_apr\\_08.pdf](http://www.levy.org/pubs/sa_apr_08.pdf)
- Wynne Godley, Dimitri B. Papadimitriou, and Gennaro Zezza. 2008. “Prospects for the U. S. and the World: A Crisis that Conventional Remedies Cannot Resolve.” Jerome Levy Economics Institute Strategic Analysis (December). [http://www.levy.org/pubs/sa\\_dec\\_08.pdf](http://www.levy.org/pubs/sa_dec_08.pdf)

#### **Class 25: The Sustainability of Fiscal Policy (4/7)**

- Blanchard, Ch. 26, “Fiscal Policy: A Summing Up,” pp. 555-574.
- William G. Gale and Peter R. Orszag. 2003. “Economic Effects of Sustained Budget Deficits.” *National Tax Journal*, vol. 56, no. 3 (September): 463-485. (Read starting at page 474 with the section titled “Deficits and Interest Rates.” Also, consider again Figure 2.)
- Scott T. Fullwiler. 2008. “Sustainable Fiscal Policy and Interest Rates under Flexible Exchange Rates.” In *Fiscal Crisis, Imbalances, and Sustainability—Concepts and Country Experiences*. Hyderabad, India: ICFAI University Press.

#### **Class 26: Possibilities for Fiscal Policy under Flexible Exchange Rates (4/9)**

- L. Randall Wray. 2005. “Flexible Exchange Rates, Fed Behavior, and Demand Constrained Growth in the USA.” Center for Full Employment and Price Stability Working Paper No. 48 (September). <http://www.cfeps.org/pubs/wp-pdf/WP48-Wray.pdf>
- L. Randall Wray. 2006. “Currency Sovereignty and Policy Independence: Argentina after Abandoning the Currency Board.” *Economic and Political Weekly* (May 13): 1857-1860.
- Warren B. Mosler. 1997. “Exchange Rate Policy and Full Employment.” [http://www.epicoalition.org/docs/exchange\\_rate\\_policy\\_and\\_full\\_em.htm](http://www.epicoalition.org/docs/exchange_rate_policy_and_full_em.htm)

**FINAL PRESENTATIONS/REPORTS: THURSDAY, APRIL 16, 3:00-5:00PM**