

EC 1499: Macroeconomic Stabilization Policy

In the wake of the pandemic, headline inflation rose to its highest level in four decades, the high rate of worker reallocation across firms and withdrawal from the labor force was labeled the Great Resignation, and central banks across the developed world responded with rate increases that might bring on a recession to tame inflation. The government debt-to-GDP ratio currently exceeds 100%. How should monetary and fiscal policy be designed in the face of these challenges? Has secular stagnation been put in the rearview mirror or is underlying growth still low due to secular, long-term trends in demographics, investment, and technical progress? This seminar will discuss the instruments available to macroeconomists to address both cyclical and long-term challenges faced by the economy of developed countries.

This course is designed for students with a serious interest in macroeconomic policy and/or macroeconomic finance. It is oriented around students reading and presenting major research papers as well as writing their own research papers, to be submitted at the end of the semester. Students should have experience with quantitative economic techniques and familiarity with macroeconomic theory. They will have substantial interaction with and help from the instructors as they choose research topics and write research papers. In the past students with experience in Fed Challenge have found the course suited to their interests.

Student papers will address issues that the instructors would find relevant and important if they were in their former positions as senior macroeconomic policymakers. Papers can be allied with student thesis research or may be used to explore potential thesis topics for students who are not currently seniors. We *strongly* recommend writing in groups of 2. The course will give students a feel for what graduate school in economics is like.

Students are expected to have taken EC 1011b (Intermediate Macroeconomic Analysis) but may be accepted without that requirement based on instructors' approval.

Topics include: the role of risk premia vs. savings-investment gaps in explaining interest rate fluctuations; Ricardian equivalence and the impact of fiscal policy in raising aggregate demand; the implication of low interest rates for target returns on institutional portfolios, financial stability; and creative destruction; savings gluts and current account surpluses; COVID-induced stabilization policies and their implications.

Admission is by permission of the instructors. Interested students should send a transcript and a 250-word statement of why they want to take the class to lhs@lawrencesummers.com and nnarain@fas.harvard.edu by August 28, 2023 at 5pm EST.

Course Instructors:

Lawrence Summers

Charles W. Eliot University Professor of Economics lhs@lawrencesummers.com

Sir Paul Tucker
Research Fellow (Harvard Kennedy School) and Former Deputy Governor of the Bank of England paul_tucker@hks.harvard.edu

Teaching Fellow:

Namrata Narain (nnarain@fas.harvard.edu)

Course Assistant:

Hemanth Asirvatham (hemanthasirvatham@college.harvard.edu)

Submissions:

Date	Submission
September 28	Co-authorship requests + list of 5 topics of interest per pair/ writer (if solo).
October	Presentations of early ideas (2 papers per week) and meetings with Larry and Paul.
November 2	First draft ~5-8 pages. This will include motivating facts, short literature review, and 2-3 regression equations with a clearly defined identification strategy for your parameter of interest.
November	Presentation of results (2 papers per week) and meetings with Larry and Paul.
December 8	Submission of final papers.

Readings

Students will be selected to present papers on a weekly basis. The following list is only meant for reference. You will be assigned papers each week in advance.

Topics

1. Business cycles, Real Business Cycle (RBC) model
2. Unemployment and Inflation in the New Keynesian model
3. Monetary Policy in the New Keynesian model
4. Fiscal policy in the New Keynesian model
5. Financial crises and asset bubbles

Please note that the list of papers is going to change over the course of the semester.

1. Business Cycles, Real Business Cycle model

Eggertsson, Gauti B. 2008. "Great Expectations and the End of the Depression." *American Economic Review* 2008, 98(4): 1476–1516.

Higgs, Robert. 1992. "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s." *The Journal of Economic History*, 52(1): 41–60.

Romer, Christina D. 1992. "What Ended the Great Depression?". *The Journal of Economic History*, 52 (4): 757–784.

2. Unemployment and Inflation the New Keynesian model

Chapters from Blinder, A. (2022): Chapter 11 (The Long Boom of the 1990s), Chapter 12 (The 2000s: The Job-Loss Recovery and the Bubbles)

[Blanchard, Olivier J. "High Inflation is Unlikely but Not Impossible in Advanced Economies," Peterson Institute for International Economics, April 24, 2020.](#)

[Blanchard, Olivier and Takeshi Tashiro, "Fiscal Policy Options for Japan." Peterson Institute for International Economics. May 2019.](#)

[Blanchard, Olivier and Takeshi Tashiro, "Rethinking Fiscal Policy in Japan." Peterson Institute for International Economics. October 7, 2019.](#)

[Dominguez, Kathryn M., Kenneth S. Rogoff, and Paul R. Krugman. 1998. "It's Baaack: Japan's Slump and the Return of the Liquidity Trap." *Brookings Papers on Economic Activity* 1998, No. 2.](#)

3. Monetary Policy in the NK model

Chapters from Blinder, A. (2022): Chapter 2 (Inflation and the Rise of Monetarism), Chapter 3 (Phillips Curve Becomes Vertical), Chapter 7 (Carter, Volcker, and the Conquest of Inflation)

[Bernanke, Ben S. "The Fed's Shifting Perspective on the Economy and Its Implications for Monetary Policy." Brookings Institution, August 8 2016.](#)

[Bernanke, Ben S. "The New Tools of Monetary Policy," American Economic Association Presidential Address, January 4 2020.](#)

[Eberly, Janice C., James H. Stock, and Jonathan H. Wright. "The Federal Reserve's Current Framework for Monetary Policy: A Review and Assessment." *NBER Working Paper Series*, June 2019.](#)

[Kiley, Michael T. and John M. Roberts. "Monetary Policy in a Low Interest Rate World". *Brookings Papers on Economic Activity*, Spring 2017.](#)

4. Fiscal Policy in the NK model

Chapters from Blinder, A. (2022): Chapter 1 (Fiscal Policy on the New Frontier), Chapter 8 (Reaganomics and the Clash Between Monetary and Fiscal Policy),

[Blanchard, Olivier. 2019. "Public Debt and Low Interest Rates." *American Economic Review*, 109 \(4\): 1197-1229.](#)

[Blanchard, Olivier J. and Lawrence H. Summers, "Automatic Stabilizers in a Low-Rate Environment," Peterson Institute for International Economics, February 2020.](#)

[Furman, Jason and Lawrence H. Summers. "Who's Afraid of Budget Deficits?". *Foreign Affairs*, March/April 2019.](#)

[Rachel, Lukasz and Lawrence H. Summers. "On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation." *Brookings Papers on Economic Activity*, Spring 2019.](#)

[Rogoff, Kenneth. "Falling Real Interest Rates, Rising Debt: A Free Lunch?". February 9 2020.](#)

5. Financial crises and asset bubbles

Chapters from Blinder, A. (2022): Chapter 13 (The Financial Crisis and the Great Recession)