

Macroeconomic Theory I

Introduction

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Overview & motivation

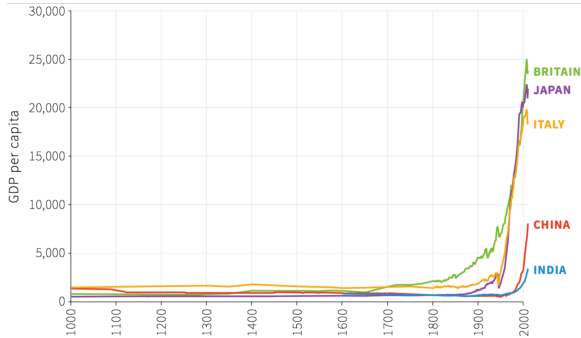


Figure: History's hockey stick

Overview & motivation

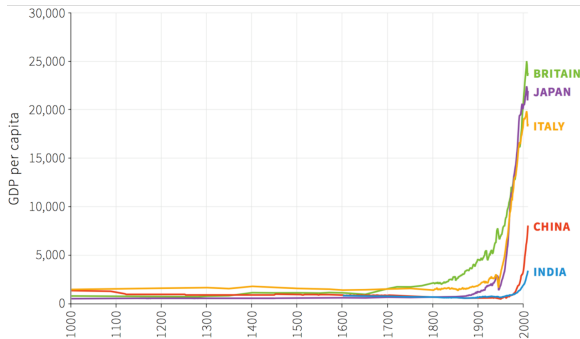


Figure: History's hockey stick

- ▶ Capitalism → industrial revolution → growth & inequality
- ▶ Capital accumulation? Technological progress? Institutions? Geography? History? Luck?
- ▶ mechanics of growth vs fundamental causes

Overview & motivation

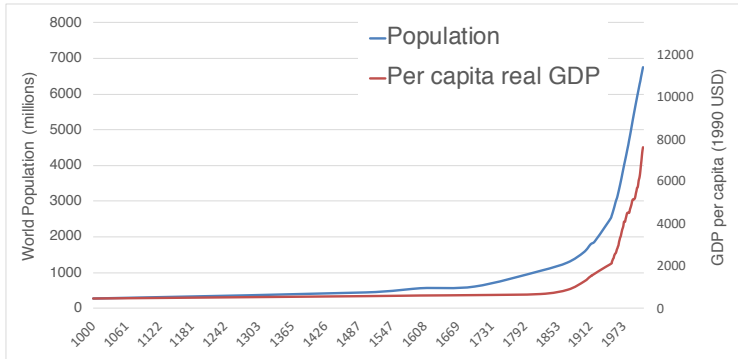
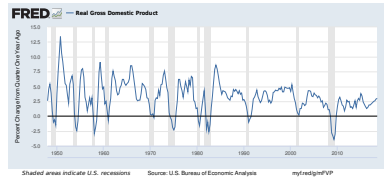


Figure: World population took off before living standards

Overview & motivation



(a) log Real GDP



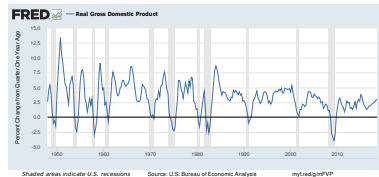
(b) quarterly y-o-y growth rate

Figure: The business cycle: quarterly US GDP data

Overview & motivation



(a) log Real GDP



(b) quarterly y-o-y growth rate

Figure: The business cycle: quarterly US GDP data

- ▶ Temporal asymmetries: long(-ish) expansions interrupted by short recessions.
- ▶ No regular cycles, apparently.

The Plan

1. **Intro**: Historical overview;
2. **Economic growth (I)**: Harrod, Solow, Ramsey and Diamond
3. **Economic growth (II)**: Arrow, Romer and Acemoglu
4. **Fluctuations (I)**: Real Business Cycle Theory
5. **Fluctuations (II)**: The 'new-synthesis' model; Nominal rigidities and DSGE models
6. **Financial Markets and crises**
7. **Labor market**
8. **Towards evidence-based Macroeconomics**

Z

The rules of the game of the course

a. Textbook

David Romer *Advanced Macroeconomics*, Fifth Edition

Also have a 'math for econ' textbook at hand (Chiang or similar).

b. Readings

A reading every week (more or less).

You'll need to read the relevant materials *before we discuss them in class*.

It is crucial that you do that.

c. Moodle page

for materials, assignments and announcements

Requirements & Grading

- A. 4 Take-home assignments [25%]
- B. Students presentations [15%]
- C. (Take-home) Mid-Term exam [30%]
- D. (Take-home) Final exam [30%]

Next readings

Before Wed (Feb 3) class:

- ▶ Lecture notes 'the Harrod-Domar model'

Before Monday Feb 8 class:

- ▶ Romer Chapter 1 (skip Section 1.8)

Before Monday Feb 15 class:

- ▶ Romer Chapter 2

The 'Eras' of Macroeconomics:

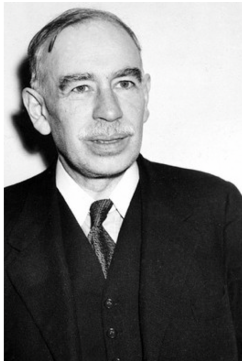
- ▶ 1930s: Great Depression and Keynesian revolution.
- ▶ 1940s-1973: Golden Age and neoclassical synthesis.
- ▶ 1970s-mid-1980s: Neoclassical counter-revolution
- ▶ Late 1980s-2007: New-Keynesian new synthesis
- ▶ Post-Great Recession: ?

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A (stylized) bit of history

Keynes and the birth of modern macroeconomics



*“On the one side are those who believe **that the existing economic system is a self-adjusting system** (...) On the other side of the gulf are those that reject the idea that the existing economic system is, in any significant sense, self-adjusting.*

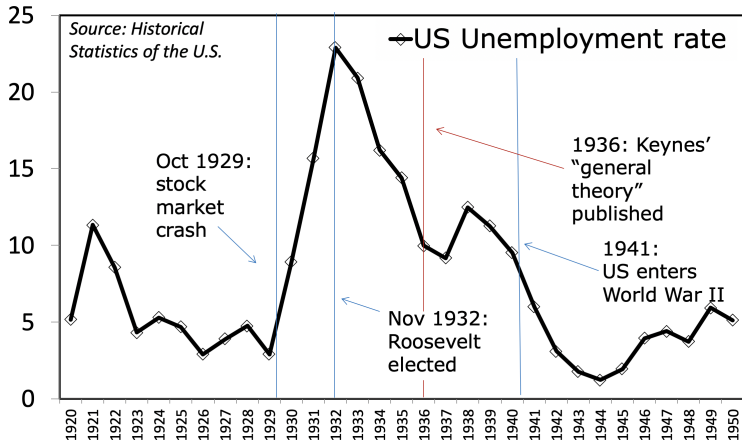
*The strength of the self-adjusting school depends on it having behind it **almost the whole body of organised economic thinking** of the last hundred years (...)*

Thus, if the heretics on the other side of the gulf are to demolish the forces of nineteenth-century orthodoxy (...) they must attack them in their citadel (...) Now I range myself with the heretics.”

(Keynes, 1973a, Vol. XIII, pp. 485–92)

A (stylized) bit of history

The Great Depression and the birth of modern macroeconomics



The Keynesian revolution

- ▶ Historical context
 - ▶ Policy orientation
- ▶ Focus on aggregates
- ▶ 'General' vs partial: interaction between markets.
- ▶ Involuntary unemployment equilibria (no Say's law).
- ▶ Investment determines savings through the multiplier.

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1940s-1973: Golden Age & neoclassical synthesis

- ▶ Keynesian ideas → policy
 - ▶ Demand management
- ▶ 'Golden Age' in industrialized economies;
- ▶ 'Neoclassical synthesis' in economic theory

The Neoclassical Synthesis

- ▶ IS-LM + Phillips curve
- ▶ Theoretical extensions:
 - ▶ portfolio analysis [Tobin];
 - ▶ open economy [Mundell-Fleming];
 - ▶ growth [Harrod, Robinson, Kaldor, Solow].
- ▶ Large-scale econometric models [Lawrence Klein, Cowles Commission]

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A (stylized) bit of history

1970s: Counter-revolution

- ▶ Changed historical context
 - ▶ labor unrest
 - ▶ stagflation
- ▶ Paradigm shift in macro theory
 - ▶ Monetarism (1960s)
 - ▶ 'New-Classical' Macroeconomics (1970s-1980s)

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A (stylized) bit of history

New-Keynesian/DSGE: a new synthesis

- ▶ Historical context
 - ▶ Late 1980s-2007
 - ▶ Great Moderation in advanced economies
- ▶ Trends in macro theory
 - ▶ New-Keynesian DSGE models
 - ▶ a new-synthesis

Post-Great Recession: Now what?

- ▶ Great Recession & slow recovery did induce some rethinking
 - ▶ not a revolution, and not much in methodology, though
- ▶ Hysteresis debate is back (Yellen, 2016).
- ▶ Secular stagnation models (Krugman & Eggertson; Benigno & Fornaro).
- ▶ The Great Return of fiscal policy? (at least at the ZLB...) (Furman, 2016)
- ▶ HANK: Heterogeneous Agents New-Keynesian Models (Kaplan & Violante 2018).