



ECONOMICS 816: Macroeconomic Theory II

Spring 2024

Enterprise Hall 274

Weds. 7:20-10 pm

Prof. Lawrence H. White

Mason Hall D-116

Office hours by request: email to schedule

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Prerequisites: ECON 715, or permission of instructor.

Logistics: Lectures slides will be posted on Blackboard before class. Please read the slides and other assigned material before each class meeting. While you read, jot down questions and comments that will be suitable to contribute to the discussion. Constructive participation in discussions is rewarded (see grading weights). Email me to schedule office hours, in person or via Zoom call.

Two midterm exams as scheduled below. The final exam will be cumulative and will be held Wednesday May 10, 7:30-10:15 pm, as scheduled by GMU. If these exam times do not fit with your schedule, please drop the course.

Requirements:	exam date	grading weight
1 st exam (90 mins.)	21 Feb	25%
2 nd exam (90 mins.)	10 April	25%
Final exam (165 mins.)	1 May, 7:30-10:15 pm	40%
Problem sets and participation		10%

The following policies are stated as a matter of record. (1) Collaboration on problem sets is allowed. (2) Cheating on an exam is grounds for a zero score on the exam. (3) Failure to take an exam at the scheduled time will result in an exam score of zero (absent a valid medical excuse or certified final exam conflict). You may not take an exam at a different time from the rest of the class. Please don't ask. (4) No one will be permitted to leave an exam before 30 minutes have elapsed, or to enter after anyone has left. (4) Performance on these exams, and on problem sets, will be the only bases for grading. No other "extra credit" will be assigned or accepted.

Books (abbreviated below):

MD: Michael Darby, *Macroeconomics: The Theory of Income, Employment, and the Price Level* (McGraw-Hill 1976). Relevant chapters posted on Blackboard.

IF: Irving Fisher, *The Theory of Interest* (1930). Blackboard.

MF&AJS: Milton Friedman and Anna J. Schwartz, *Monetary Trends in the United States and the United Kingdom* (Chicago 1982). Blackboard.

RWG: Roger W. Garrison, *Time and Money: The Macroeconomics of Capital Structure* (Routledge 2001). Available in the GMU bookstore, online.

JH: J. Hirshleifer, *Investment, Interest, and Capital* (Prentice-Hall 1970). Blackboard.

FAH: Friedrich A. Hayek, *Prices and Production*, 2nd ed. (Kelley 1967). Available at <http://mises.org/books/pricesproduction.pdf>

AL: Axel Leijonhufvud, *Information and Coordination* (Oxford 1981). Blackboard.

LBY: Leland B. Yeager, *The Fluttering Veil: Essays on Monetary Disequilibrium*, ed. George Selgin (Liberty Fund 1997). Available from www.libertyfund.org.

Additional readings online or through Blackboard, as indicated below.

"Money is a veil. But when the veil flutters, output sputters."—John Gurley

Sequence of Topics, Exams, and Readings

1. Introduction: Wicksellians, Keynesians, Monetarists, Walrasians

Roger W. Garrison, "Time and Money: The Universals of Macroeconomic Theorizing," *Journal of Macroeconomics* 6 (1984), pp. 197-213,
<http://www.auburn.edu/~garriro/b6time.htm>

Lawrence H. White, *The Clash of Economic Ideas*, chs. 3, 5, 12. Blackboard.

Leland B. Yeager, "New Keynesians and Old Monetarists," *LB* pp. 281-302

Lawrence H. White, "Hayek and Modern Macroeconomics." Blackboard.

Stanley Fischer, "(Money), Interest and Prices: Patinkin and Woodford,"

<https://www.federalreserve.gov/newsevents/speech/fischer20160519.htm>

Michael de Vroey, "The History of Recent Macroeconomics Through the Lens of the Marshall-Walras Divide,"

<https://sites.uclouvain.be/econ/DP/IRES/2018018.pdf>

2. Intertemporal consumption preferences

IF ch. 4

JH chs. 1-2

3. Intertemporal production possibilities

IF ch. 7

JH ch. 3

FAH ch. 2

RWG ch. 3

4. Intertemporal market equilibrium and the natural rate of interest; "Loanable funds" interest theory

IF chs. 10-14

JH ch. 4

Meir Kohn, "A Loanable Funds Theory of Unemployment and Monetary Disequilibrium," *American Economic Review* 71 (Dec. 1981), pp. 859-879,

<http://www.jstor.org/stable/1803470>

5. Capital goods in intertemporal production

JH ch. 6

RWG pp. 57-67

F. A. Hayek, *The Pure Theory of Capital* (Chicago 2007), pp. xiii-xxxvi (Editor's Introduction by LHW), 62-107 (chs. 4-6). Blackboard.

Lawrence H. White, Editor's Introduction to Hayek, *Capital and Interest* (Chicago 2015). Blackboard.

Lloyd Metzler, "The Rate of Interest and the Marginal Product of Capital," *Journal of Political Economy*, 1950, 58 (4), pp. 289-306.

6. **First exam, Feb. 21**
7. **Static monetary equilibrium; Neutrality of money; Money growth equilibrium; Superneutrality of money**
MD chs. 5, 6
MF&AJS chs. 2, 6 (skip appendices)
Yeager, "Essential Properties of the Medium of Exchange," LBY pp. 87-110
Yeager, "Individual and Overall Viewpoints in Monetary Theory," LBY pp. 137-62
David Laidler, "The 'Buffer Stock' Notion in Monetary Economics," *Economic Journal* 94, Supplement: Conference Papers (1984), pp. 17-34,
<http://www.jstor.org/stable/2232652>
J. C. Gilbert, "The Compatibility of Any Behaviour of the Price Level with Equilibrium," *The Review of Economic Studies* 24 (June 1957), pp. 177-184,
<http://www.jstor.org/stable/2296066>
Lawrence H. White, "Inflation," *Concise Encyclopedia of Economics*,
<http://www.econlib.org/library/Enc/Inflation.html>
Axel Leijonhufvud, "Inflation and Economic Performance" (1984). Blackboard.
8. **Money and interest rates in equilibrium**
MF&AJS, pp. 477-500
JH ch. 5
MD pp. 166-72
9. **Monetary disequilibrium**
MD ch. 7
Yeager, "A Cash Balance Interpretation of Depression," LBY pp. 3-19
Yeager, "The Significance of Monetary Disequilibrium," LBY pp. 217-51
RWG, ch. 11
Robert Clower and Axel Leijonhufvud, "Say's Principle: What it Means and Doesn't Mean," AL ch. 5
Lawrence H. White, "Some Simple Monetarist Arithmetic of the Great Recession and Recovery," Alt-M blog (18 May 2016),
<https://web.archive.org/web/20160523044942/https://www.alt-m.org/2016/05/18/some-simple-monetarist-arithmetic-of-the-great-recession-and-recovery/>
10. **Spillovers from monetary to intertemporal disequilibrium**
FAH, ch. 3 (online at <http://mises.org/books/pricesproduction.pdf>)
RWG pp. 67-83, ch. 6
Roger W. Garrison, "Overconsumption and Forced Saving in the Mises-Hayek Theory of the Business Cycle," *History of Political Economy* 36 (2004), pp. 323-49,
http://muse.jhu.edu/journals/history_of_political_economy/v036/36.2garrison.pdf
Lawrence H. White, "Did Hayek and Robbins Deepen the Great Depression?," *Journal of Money, Credit, and Banking* 40 (2008), pp. 751 – 768,
<http://economics.sbs.ohio-state.edu/jmcb/jmcb/07056/07056.pdf>

Yeager, "Injection Effects and Monetary Intermediation," *LBY* pp. 253-79
Leijonhufvud, "The Wicksell Connection: Variations on a Theme," *AL* ch. 7

11. Spillovers from monetary to labor market disequilibrium

RWG ch. 10

MD ch. 14

Milton Friedman, "The Role of Monetary Policy," *American Economic Review* 58 (Mar. 1968), pp. 1-17, <http://www.jstor.org/stable/1831652?seq=3>

Dan E. Birch, Alan A. Rabin, and Leland B. Yeager, "Inflation, Output, and Employment: Some Clarifications," *LBY* pp. 163-78

Robert E. Lucas, "Understanding Business Cycles," *Carnegie-Rochester Conference Series on Public Policy* 5 (1977), pp. 7-9.

<http://icm.clsbe.lisboa.ucp.pt/docentes/url/jcn/mabes/LucasUnderstanding.pdf>

12. Second exam, April 10

13. Fiscal policy

RWG ch. 5

Lawrence H. White, "The Output Gap, the Federal Budget Deficit, and the Threat of Debt Monetization, Alt-M blog (15 May 2018), <https://www.alt-m.org/2018/05/15/the-output-gap-the-federal-budget-deficit-and-the-threat-of-debt-monetization/>

Thomas J. Sargent and Neil Wallace, "Some Unpleasant Monetarist Arithmetic," *FRB Minneapolis Quarterly Review* 8 (Fall 1981)

<http://research.mpls.frb.fed.us/research/qr/qr531.pdf>

Michael Darby, "Some Pleasant Monetarist Arithmetic," *FRB Minneapolis Quarterly Review* 8 (Spring 1984)

<http://www.minneapolisfed.org/research/qr/qr822.pdf>

Preston J. Miller and Thomas J. Sargent, "A Reply to Darby," *FRB Minneapolis Quarterly Review* 8 (Spring 1984),

<http://research.mpls.frb.fed.us/research/qr/qr823.pdf>

Narayana Kocherlakota, "Central bank independence and sovereign default," <http://www.bis.org/review/r110928c.pdf>

Bennett T. McCallum and Edward Nelson, "Monetary and Fiscal Theories of the Price Level: The Irreconcilable Differences," *Federal Reserve Bank of St. Louis Working Paper*, <http://research.stlouisfed.org/wp/2006/2006-010.pdf>

14. Can we neutralize monetary policy?

FAH, ch. 4, including appendix

Lawrence H. White, "Hayek's Monetary Theory and Policy: A Critical Reconstruction," *Journal of Money, Credit, and Banking* 31 (Feb. 1999), <http://www.jstor.org/stable/2601142>

Roger W. Garrison, "Interest-Rate Targeting During the Great Moderation," *Cato Journal* 29 (Winter 2009),

<http://www.cato.org/pubs/journal/cj29n1/cj29n1-14.pdf>

George Selgin, *Less Than Zero: The Case for a Falling Price Level in a Growing*

Economy (IEA 1997), <http://www.iea.org.uk/files/upld-book98pdf?.pdf>
Scott Sumner, "Some Thoughts on Selgin's Productivity Norm" (2 Dec. 2009),
<http://blogsandwikis.bentley.edu/themoneyillusion/?p=3059>. (Scroll down to
comments to see Selgin's replies and further exchanges.)
Scott Sumner, "The Impact of Futures Price Targeting on the Precision and
Credibility of Monetary Policy," *Journal of Money, Credit and Banking* 27
(Feb., 1995), pp. 89-106, <http://www.jstor.org/stable/2077852>
Roger W. Garrison and Lawrence H. White, "Can Monetary Stabilization Policy
be Improved by CPI Futures Targeting?," *Journal of Money, Credit and
Banking* 29 (Nov. 1997), pp. 535-541, <http://www.jstor.org/stable/2953712>
Scott Sumner, "Reply to Garrison and White," *Journal of Money, Credit and
Banking* 29 (Nov. 1997), pp. 542-545, <http://www.jstor.org/stable/2953713>

Final exam (cumulative), Wednesday 1 May, 7:30-10:15 pm