

Syllabus ECON 7008 Macroeconomics 2

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Lecture: Monday & Wednesday 11:50am to 1:10pm in Bldg 73/Room 111

Office hours by appointment.

Prerequisite: ECON 7007.

Requirements: Grades are based on a midterm and final exam (25% each) as well as assignments, class participation and a presentation (50%).

This course presents macroeconomic theories of the business cycle, growth and distribution. Emphasis is placed on Keynesian and Post–Keynesian models. Selected readings are on reserve, others are posted in Canvas, which will as well be used for course communications. Below follows an outline.

Roughly, the course can be separated into sections on (a) the real economy—the determination of output, prices, and distribution—and on (b) interactions of the real economy with money and finance, as well as (c) growth. We will decide throughout which readings are most relevant. References in *italic* are available as e–books through Marriott Library’s online portal. Reading widely is encouraged, as is focussing on certain pieces and models. The former is necessary for broad understanding, the latter specifically for exams.

1 Introduction: The primacy of demand

This course is (mostly) about Keynesian and Post–Keynesian economic theories. What do we mean by *Keynesian and Post–Keynesian*? This first section introduces us to the issues and debates. We begin with an overview of the evolution of macroeconomics, and a discussion of the various so–called revolutions. We then consider the import of the principle of effective demand, and look at some key features of Post–Keynesian economics.

- Keynes, the Keynesian Revolution, and Keynesianism. Pasinetti (2007), ch.1–2; Backhouse, Bateman and Laidler in Backhouse and Bateman (2006), ch.1–3; Taylor (2010), ch.1–4; Leijonhufvud and Colander in Colander (2006), ch.1–2; Patinkin (1990); Mankiw (2006).
- Effective demand vs. Say’s Law: Dutt and Amadeo (1990), ch.1–2; Amadeo (1989) ch.1–2; Asimakopulos (1991), ch.3–4; Pasinetti (1974), ch.1–2; Baumol (1999).
- Post–Keynesian economics: Lavoie (2006b), Introduction and chapter 1; Harcourt (2006); Introduction; Dutt and Amadeo (1990), ch.5; Paul Davidson in Snowdon and Vane (2005), ch.8.
- Discussion of the coherence of the Post–Keynesian school of thought (for reference and further reading): Eichner and Kregel (1975); Walters and Young (1997); Mongiovi (2001); Hamouda and Harcourt (1988); Pasinetti (2005); Lavoie (2006a); see as well results from a panel at 1979 AEA–meetings: Crotty (1980); Kenyon and Harcourt (1980); Tarshis (1980); Yellen (1980).

2 Prices and distribution

The functional distribution of income, and specifically the rejection of marginalist theory of distribution, lies at the heart of both classical and Post–Keynesian analysis. Similarly, prices do not reflect scarcity, but conflict. In this section, we begin with an overview of these issues, and then discuss some features of the determination of prices and distribution.

- Overview and social accounting: Foley and Michl (1999), ch.2; Taylor (2004), ch.1–2; Garegnani (1978, 1979, 1984); see as well Eatwell and Milgate (1983), ch.1–4 on Garegnani; Kaldor (1955); Pasinetti (1977), ch.2. Maybe: Sylos Labini (1993, 1984), ch.1–3 and ch.3, respectively.
- Post–Keynesian price theory: Kalecki (1971), ch.5–6; Arestis (1994), ch.6; Lavoie (2006b), ch.2; *Lee (1998)*, ch.2 on *administered prices*, ch.4 and 5 on *full and normal cost prices*, Part III on *mark-up prices* as well as ch.11.
- Wage determination:
 - (1) The wage curve: Blanchflower and Oswald (1990, 1995); Carlin and Soskice (1990), ch.6 & 17–19; Akerlof and Yellen (1990); see as well Arestis (1994), ch.7
 - (2) Phillips curve(s): Snowden and Vane (2005), ch.3–4, especially sections 3.6 and 4.3 on traditional and expectations–augmented Phillips curves, respectively; and Flaschel et al. (2007); Franke et al. (2006) on separate wage and price Phillips curves.
- Further discussion of the NAIRU: Pollin (1998); Skott (1999); Storm and Naastepad (2007); 1997 JEP symposium: Galbraith (1997); Gordon (1997); Blanchard and Katz (1997).
- Conflict inflation: Rowthorn (1977); Taylor (1991), ch.4; Lavoie and Casseti in Setterfield (2002)

3 Demand and distribution

This section focuses on (Neo–)Kaleckian theories of the determination of output as a function of the distribution of income. We specifically emphasize the debate on whether demand is profit–led or wage–led; or, in other words, whether the economy tends towards stagnationism or exhilarationism.

- **The Neo–Kaleckian model:** Kalecki’s determination of demand and distribution: Kalecki (1971), ch.1–3, 10–12 and 15; see as well entries on Kalecki in O’Hara (1999), pp.607–617. Neo–Kaleckian models and stagnation vs. exhilaration: Lavoie (2006b), ch.4; Rowthorn (1982); Dutt (1984); Taylor (1985) and Bhaduri and Marglin (1990); Taylor (2004), ch.7.; Blecker and Mott in Setterfield (2002).
- **The Neo–Kaleckian model for open economies:** Blecker (1989, 1998); and Blecker’s chapter in *Deprez and Harvey (1999)*; Naastepad (2006) (see Kaldor (1966) & Thirlwall (1983) for background); Rezai (2011).
- **A critical discussion:** Discussion of the Kaleckian model, its time horizon and possible “traverses”: Lavoie (1995, 1996); Dumenil and Levy (1999); Skott (2012), Dutt (2011, 2006, 2012) and Kurz (1994).

4 Cycles and growth

Both business cycle and growth are best understood as cyclical processes. Based on the pioneering work of Kaldor and Goodwin, a number of such models—locally unstable, globally stable, and producing regular cycles—have been put forth. This section emphasizes such models and the methods used to analyze them. Some of these models address not only the cycle, but as well growth, and we will occasionally address the issue.

- Multiplier–accelerator dynamics: Samuelson (1939); Goodwin (1951).

- Two classics: (1) Kaldor’s trade cycle Kaldor (1940); Chang and Smyth (1971) and (2) Goodwin’s growth cycle: Goodwin (1967); see as well Lorenz (1993) ch.2 and Gandolfo (2010) ch.24, and Arestis (1994), ch.9; ”Business cycles” by Skott and ”Dynamics” by Rosser in King (2005); and Blatt (1983), ch.8–10.
- More recent cyclical models with a variety of flavors: Barbosa-Filho and Taylor (2006); Skott (1989); Skott and Zipperer (2009); Flaschel and Skott (2006).

5 Demand and money

Finance—the financing of investment, asset prices, debt, *money*—plays a central role in Keynesian economics. The classical dichotomy does not hold; in monetary production economies *money* has both short and long run effects. In this section, we look at some relevant feedback channels between demand and finance.

- Setting the stage: Keynes (1930, 1936, 1937); Kalecki (1937); Moore (1988); Wray (1998); selected chapters from Arestis and Sawyer (2008); Arestis (1994), ch.8; Taylor (2010), ch.4–5.
- IS/LM dynamics and monetary growth: Taylor (2004), ch.4 and Taylor’s chapter in Dymski and Pollin (1994); maybe *Chiarella and Flaschel (2000)*, ch.1–2 and Flaschel et al. (1997), ch.11–12.
- Investment and finance: Investment can be finance–constrained: Eichner and Kregel (1975); Fazzari and Mott (1986); Fazzari et al. (1988a,b); capital markets are imperfect: see Semmler (2006), ch.3–4 for a survey; finance amplifies the business cycle: Adrian and Shin (forthcoming); Geanakoplos (2010).
- Stock–flow consistent monetary macro, and Tobin’s q : Tobin (1969, 1982) (ch.4 of the latter) and Tobin and Brainard (1977); Foley and Taylor (2006); Godley and Lavoie (2007a,b) (ch.1–2 of the latter); Dos Santos (2006); Zezza and Dos Santos (2006, 2007); Franke and Semmler (1999).
- Financial fragility. Minsky himself: Minsky (1986, 1982, 1975). Volumes/essays on Minsky: Fazzari and Papadimitriou (1992); Dymski and Pollin (1994), Dymski (1997) and reviews by Wray (2002) and Sethi (2002). Two models: Taylor and O’Connell (1985) and Taylor (forthcoming).
- Other models: Foley (1992), see as well Gandolfo (2010), ch.25, pp 494–499; Chiarella and Flaschel (1996); Kiyotaki and Moore (1997, 2002).

6 Growth

Finally, we discuss growth. We focus on the key contributions from Cambridge, UK: Harrod, Kaldor and Robinson, and contrast them with the Solow neoclassical growth model and a Ramsey–type model.

- Selected originals: Ramsey (1928); Harrod (1939); Solow (1956); Kaldor (1957, 1961, 1966); Robinson (1956, 1960, 1962).
- Key textbook chapters...: Foley and Michl (1999) ch.1–2, 6–10, and 14–16; Arestis (1994), ch.9; Romer (2005), ch.1–3; Blanchard and Fischer (1989), ch.2 pp.37–48.
- ... and other sources:
 - (1) Surveys: Taylor (2004) ch.5 & 11; ?; Asimakopulos (1991), ch.6–8;
 - (2) On Robinson: Kregel (1975) Part III, pp. 53–110; Marcuzzo et al. (1996), ch.14–17;
 - (3) On Kaldor: Thirlwall (1983, 1986); McCombie et al. (2003); McCombie and Thirlwall (2004); Rada and Taylor (2006); see as well entries on Kaldor in O’Hara (1999), pp.601–7;
 - (4) and an accessible textbook discussion of neoclassical and endogenous growth in Carlin and Soskice (2006), ch.13–14.

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