

Economics 715
Macroeconomic Theory I
Fall 2008
Mondays, 1920-2200
Enterprise Hall 176

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This course provides a graduate-level introduction to contemporary macroeconomic theory. Macroeconomic discourse is more characterized by competing and contrasting schools of thought than is microeconomic discourse. There are numerous antinomies throughout the literature, and different organizational schemes often follow from the selection of one side of an antinomy over another.

Some macro theories presume that markets work well to coordinate economic activities, while other theories presume that markets are characterized by widespread failure. Some macro theorists treat money as vital to the economic process, while others treat it as trivial. Some macro theorists think that Walrasian-type general-equilibrium modeling should provide the framework for economic modeling, while others deny the veracity of such a framework. Some macro theorists think that the economic linchpin resides in labor markets and wage and price rigidities, while other macro theorists think that the linchpin resides in enterprise planning and achieving coordination among the plans of savers and investors through capital markets.

Moreover, the conventional nomenclature that describes schools of thought is often more confounding than clarifying. For instance, the differences between Classical and New Classical economists are more striking than the similarities. It is equally perplexing to find that New Keynesians are closer to Monetarists than to traditional Keynesians. Moreover Post Keynesians have almost nothing in common with New Keynesians, other than sharing some long dead ancestor.

This course will be presented in two acts preceded by an overture, and with an intermission between the two acts during which you will take an exam. (You will also take an exam after the second act.) The first act will entail seven sessions, the second act five sessions. The first act follows a "schools of thought" organization. The various schools of thought that will be examined during this act are united in their effort to theorize about macro phenomena in terms of aggregate variables acting upon one another. The second act takes an emergent or bottom-up approach to macro phenomena, wherein aggregate variables are emergent and not direct objects of choice.

Macroeconomics deals with the performance properties of an economic system as a whole. Its two main questions that can be discerned pretty directly from any examination of economic time series: long-term progress and short-

term variability. Growth, negative as well as positive, and cycles are the two primary phenomena that macroeconomics studies.

In his *Lectures on Jurisprudence*, Adam Smith claimed that Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things.

Smith's three conditions for progress seem simple and straightforward. Not only is opulence easy to achieve, it is universally desired. Yet progress has not been easy and general throughout the world. How to give an economically interesting account of a failure to achieve something that is apparently easy ("natural") and universally desired is the distant target at which this course aims.

Course Texts and Other Readings

Four books will comprise the primary reading material for the semester. These are (1) *Modern Macroeconomics*, by Brian Snowdon and Howard Vane; (2) *Micromotives and Macrobehavior*, by Thomas Schelling; (3) *Turtles, Termites, and Traffic Jams*, by Mitchel Resnick, and (4) a manuscript of the penultimate version of my *Mind, Society, and Human Action: A Theory of Social Economy*.

Modern Macroeconomics takes a schools of thought approach to its material. This book provides the organizational framework for the first act. During this act, I seek to convey both a sense of the internal coherence of different approaches to macro theory and an awareness of the central points where these approaches diverge, both from one another and from the emergent orientation that will be explored during the second act.

During the second act I will explore an alternative approach to macro theory where aggregate variables are not direct objects of choice but rather are un-chosen by-products of human interaction. The other three books provide the reading material for this act.

Micromotives and Macrobehavior does not address topics that are traditionally treated in macroeconomics. The central theme of this book is that there are all kinds of macro outcomes that are not direct objects of choice, but rather are simply emergent outcomes or unintended consequences that arise through human interaction. This theme has, I believe, much potential significance for macro theorizing.

Turtles, Termites, and Traffic Jams pursues these insights by illustrating how computational modeling might be used to develop bottom-up approaches to macro phenomena, in contrast to the conventional top-down approach to macro

theorizing. How such insights might be used to illuminate macro phenomena remains a challenge for the future, as people are just now beginning to explore such matters.

Mind, Society, and Human Action: A Theory of Social Economy is a manuscript that I developed while teaching Econ 880 the previous four years. While it is written as a general treatment of economic theory and not explicitly as a macro book, it conveys the emergent, bottom-up orientation that informs the second act.

These textual readings are plenty for the semester. The Red Book itself is quite hefty, weighing in at 2.75 pounds. You will, of course, need to expand your reading beyond these items. The Red Book has a good bibliography, with some items given special reference. The other books also have references. You should cultivate the habit of forming your own bibliographies.

Your Work and My Appraisal of It (Grading)

My appraisal of your performance will be based on four things. Two of these will be examinations: a midterm and a final. Each will count for 30 percent of your course grade, and each will be two hours long. The midterm will be given on 27 October. The final will be given at the scheduled time, 1930 on 15 December. My judgment of the quality of your in-class performance during the semester will count for 10 percent of your course grade.

The remaining 30 percent will be based on a short (8-12 pages in standard manuscript style) essay on the generic topic: "Traditional Macro: An Emergent Reorientation." Your task is to take some topic from standard macro theory as covered in the first act, and attempt to set forth how you might approach that topic from the emergent perspective that was probed during the second act. This assignment seeks to accomplish two things: one is to get you to explore some standard macro topic more deeply; the other is to think about how you might bring an emergent orientation to bear on that topic.

These papers will be due by 1700 on 8 December (there is no class that day). (You will have my evaluation and grade prior to the final exam on 15 December.) These papers must be submitted in hard copy, as I cannot process this many electronic submissions. Let me also say that it is your burden to get your papers submitted on time. I don't accept late work. Nor will I accept an electronic submission if it is 1650 when you complete your paper and you realize that you can't possibly deliver it on time.

Speaking of tardiness let me also say that there will be no make-up exam if you miss the exam on 27 October. Instead, the final exam will count 60 percent of your course grade. Someone in this position who subsequently

misses the final exam will be repeating this course next year, provided that that person still desires to pursue the degree. And for those of you who might think of taking an incomplete to finish the course work later, don't. I don't give incompletes, save for some genuine calamity that can be documented.

The GMU grading scale for graduate courses has four grades (A, B, C, and F), though there are also some plusses and minuses to fill some of the interstices. For each of your writing efforts, whether it is an answer to an exam question or a paper, I put it into one of four categories (sometimes appending a plus or minus), according to how closely it evokes one of the following four reactions in me:

A: Crystal clear and expertly done. Everything essential is there; nothing important is left out. Nothing misleading or ambiguous is present. It exhibits some imagination and creativity, in that it surprised me pleasantly.

B: While the response is essentially correct, it falls short of an A grade response in either of two ways: (1) it is a bit on the ragged and disjointed side and (2) while the workmanship is good, it is predictable and not surprising in any way. Moreover, while there might be some minor errors of omission, there should not be any errors of commission, for a response that fails to present a fully clear insight is better than one that presents some erroneous insight.

C: A reader comes away with a significant degree of confusion, with errors of commission being the most likely source of that confusion, though poorly implemented rhetorical skills can also create significant confusion. (In any case, it is the burden of the writer to make his meaning clear; it is not the duty of the reader to infer that meaning.)

F: The reader is sent positively in the wrong direction, and the writer would be well advised to do something else than study economics, unless this particular instance is an outlier that does not form part of a pattern.

The references to surprise in the preceding paragraphs remind me of George Shackle, who you will encounter during the course. In *Uncertainty in Economics*, Shackle sketched what he thought it took to be a good economist. I assume that each of you aspires to be a good economist, so Shackle's considered opinion might provide sustenance for your aspirations (though I would also note that Shackle wrote this over half a century ago, when very few women studied economics):

To be a complete economist, a man need only be a mathematician, a philosopher, a psychologist, an anthropologist, a historian, a geographer, and a student of politics; a master of prose exposition; and a man of the world with experience of practical business and finance, an

understanding of the problems of administration, and a good knowledge of four or five languages. All this is, of course, in addition to familiarity with the economic literature itself.

As for the type of person best suited to the study of economics, Shackle later suggests it is

. . . the outstanding intellectual all-rounder with some leaning towards the arts rather than the natural science side. The person who finds mathematics fascinating without, perhaps, marching through the school course with that instinctive and professional certainty that would mark him as an out-and-out mathematician; who betrays a connoisseurship of words and a delight in language, a gift for expression in English and a sufficient pleasure in the classical languages to awaken thoughts of scholarships, without really promising to become a Porson's prizeman; who can find in every chapter of the history book the universal and eternal problems of man's dependence on his fellow-men side by side with his rivalry and conflict with them, and can see with the historian's eye the age-long empirical struggle to reconcile self-interest and enlightened compassion; who delights in maps and finds them, perhaps, more interesting than test tubes—this is the potential real economist.

Course Outline and Readings

Overture

25 August	Macro Theory: Some Issues of Scope and Method Snowden and Vane, Ch. 1 Resnick, Chs. 1, 4 Schelling, Ch. 1 Wagner, Ch. 1
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Act I: Traditional Schools of Macro Theory

8 September	Keynes vs. the Classical Economists Snowden and Vane, Chs. 2-3
15 September	Monetarism Snowden and Vane, Ch. 4
22 September	New Classical Macro Snowden and Vane, Chs. 5-6

- 29 September **New Keynesian Macro**
Snowden and Vane, Ch. 7
- 6 October **Post-Keynesian Macro**
Snowden and Vane, Ch. 8
- 14 October **Austrian Macro** [note the Columbus Day shift of day]
Snowden and Vane, Ch. 9
- 20 October **Varieties of Macro Growth Theory**
Snowden and Vane, Ch. 11
- 27 October **Mid-term examination**

Act II: Emergent-Style Macro Theorizing

- 3 November **Society, Economy, Polity: How to Map Reality?**
Wagner, Ch. 2
- 10 November **Intentionality, Spontaneity, and the Micro-Macro Bridge**
Snowden and Vane Ch. 12
Resnick, Chs. 2-3
Schelling, Chs. 2-4
Wagner, Chs. 3-4
- 17 November **Macro Foundations for Micro Theory?**
Schelling, Chs. 5-7
Wagner, Chs. 5-6
- 24 November **Turbulence within the Macro Ecology of Enterprises**
Wagner, Ch. 7
- 1 December **Cause, Effect, and Macro-level Political Economy**
Snowden and Vane, Ch. 10
Wagner, Ch. 8
- 15 December **Final Examination, 1930**