

CONTEMPORARY ECONOMICS

2015/2016

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COURSE DESCRIPTION

Pre-requisites *Economics (adaptive course)*

Course Type *Compulsory*

Abstract

The course is comprised of two parts.

The first part of the course introduces graduate students with the modern microeconomic theory, including some topics in behavioral, institutional and evolutionary economics. Most of the topics consider collective actions and various ways to deal with the problems, which arise in collective decision-making.

The second part of the course introduces graduate students with the modern macroeconomic theory and its applications to the analysis of the political and economic issues. Topics include the growth theory and the study of deep causes of comparative development, as well as the analysis of macroeconomic policies, financial markets fluctuations and open macroeconomics.

Learning Objectives

The objectives of the course are:

- to provide students with the knowledge of core concepts and models of economics,
- to develop students' ability to apply economic models to the analysis of specific economic cases
- to provide students with the knowledge of methodological tools and their applications to the analysis of general problems in economics and social sciences.
- to give opportunities to students to apply macroeconomic theory to analysis of up-to-date debates about macroeconomics policies.

LIST OF TOPICS

Part 1. Microeconomics and modelling of the social-economic behavior

1. Open questions in microeconomics: introduction (2 hours)

Examples of problems which are studied in microeconomics. What problems cannot be described by neoclassical microeconomics.

Required reading:

Bowles S., *Microeconomics: behavior, institutions and evolution*.

Additional readings:

Simon, Herbert (1955), "A Behavioral Model of Rational Choice." *Quarterly Journal of Economics*, Vol. 69, pp. 99–118.

Thaler, Richard. 2001. "Anomalies." *Journal of Economic Perspectives*, 15:1, pp. 219.

2. Preferences and behavior (4 hours)

Different approaches to describe relationship between behavior and preferences. Context-dependent preferences. Social preferences. Altruism. Cross-cultural experiments.

Required reading:

Bowles S., *Microeconomics: behavior, institutions and evolution*. (Ch. 3)

Additional readings:

Fehr, Ernst, and Urs Fischbacher. 2001 "Why Social Preferences Matter." Stockholm, Nobel Symposium on Behavioral and Experimental Economics.

Bowles, Samuel. 1998. "Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions." *Journal of Economic Literature*, 36, pp.175–111.

3. Game theory (8 hours)

Different approaches to describe collective actions. Nash equilibrium. Cooperative and noncooperative contracts. Problems with classical game theory.

Required reading:

Bowles S., *Microeconomics: behavior, institutions and evolution*. (Ch. 1)

Brams S. *Game Theory for Humanities*. MIT Press, 2011.

Additional readings:

Weibull J.W. The 'as if' approach to game theory: Three positive results and four obstacles. *European Economic Review*, 1994, v.38 (3-4), pp. 868-881.

4. Coordination failures and institutions (8 hours)

Tragedy of fishers: examples and ways to deal with this problem. Collective production.

Required reading:

Bowles S., *Microeconomics: behavior, institutions and evolution*. (Ch. 4)

Additional readings:

Ostrom, Elinor. 1999. "Coping with Tragedies of the Commons." *Annual Review of Political Science*, 2, pp. 493–535.

Ostrom, Elinor, and Roy Gardner. 1993. "Coping with Asymmetries in the Commons: Self-Governing Irrigation Systems Can Work." *Journal of Economic Perspectives*, 7:4, pp. 93–112.

Ostrom, Elinor, Joanna Burger, Christopher Field, Ricahrd Norgaard, and David Policansky. 1999. "Revisiting the Commons: Local Lessons, Global Challenges." *Science*, 284, pp. 278–82.

5. Distribution: bargaining and rent-seeking. (8 hours)

Bargaining problem. Nash and Rubinstein bargaining. Problem of inefficiency and rent-seeking.

Required reading:

Bowles S., *Microeconomics: behavior, institutions and evolution*. (Ch. 5)

Additional readings:

Johansen, Leif. 1979. "The Bargaining Society and the Inefficiency of Bargaining." *Kyklos*, 32:3, pp. 497–522.

6. Postwalrasian paradigm (2 hours)

Evolutional social science as an alternative to neoclassical economics

Required reading:

Bowles S., *Microeconomics: behavior, institutions and evolution*. (Ch. 14)

Additional readings:

Sen, Amartya K. 1977. "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory." *Philosophy and Public Affairs*, 6:4, pp. 317–44.

Kahneman, Daniel. 1994. "New Challenges to the Rationality Assumption." *Journal of Institutional and Theoretical Economics*, 150:1, pp. 18–36.

Grading

Final grade for the first part of the course will consist of essay (30%) and final exam (70%)

Part 2. Macroeconomics and macroeconomic policies

- 1. The determinants of long-run economic growth.**
- 2. The deep roots of comparative development.**
- 3. Business cycles and the role of the government.**
- 4. Inflation and monetary policy.**
- 5. Introduction to macroeconomics of financial markets.**
- 6. Economic policies in the open economy.**

Part 2. Macroeconomics and macroeconomic policies

1. The determinants of long-run economic growth (8 hours)

The evolution of income per capita growth rates across countries. Income and welfare. The Great Divergence. Explanation of differences in incomes and growth rates across countries in the neoclassical growth model. Growth accounting. Conditional convergence hypothesis. The rise of endogenous growth theories. Technologies as a public good. Horizontal and vertical innovations. Proximate and fundamental causes of economic growth. A simple endogenous growth model. The mechanisms of poverty traps. Political institutions and economic growth. Comparative advantages and economic growth. Dutch disease and the curse of natural resources.

Required readings:

Acemoglu, D. (2010) Introduction to modern economic growth. Chapter 1.

Snowden, Wein (2005) Modern Macroeconomics: its Origins, Developments and Current State. Chapter 11.1-11.3, 11.8, 11.10-11.13 .

Recommended readings:

Charles I. Jones & Paul M. Romer, 2010. "The New Kaldor Facts: Ideas, Institutions, Population, and Human Capital," American Economic Journal: Macroeconomics, American Economic Association, vol. 2(1), pages 224-45, January.

Young, Alwyn (1995) "The Tyranny of Numbers." Quarterly Journal of Economics, 110, pp. 641-680.

Romer, Paul M. (1990) "Endogenous Technological Change." Journal of Political Economy, 98(part I), pp. S71-S102.

Matsuyama, Kiminori (1992) "Agricultural Productivity, Comparative Advantage and Economic Growth." Journal of Economic Theory, 58, pp., 317-334

Easterly, William (2001) The Elusive Quest for Growth. The MIT Press, Cambridge, MA.

Aghion, Philippe and Peter Howitt (1992) "A Model of Growth Through Creative Destruction." Econometrica, 60, pp. 323-351.

Barro, Robert J. and Xavier Sala-i-Martin (1997) "Technological diffusion, convergence and growth." Journal of Economic Growth, 2, pp. 2-36.

Galor, Oded and Joseph Zeira (1993) "Income Distribution and Macroeconomics." Review of Economic Studies, 60, pp. 35-52.

Jeffrey D. Sachs, Andrew M. Warner. (1995) Natural Resource Abundance and Economic Growth. NBER Working Paper No. 5398. Issued in December 1995

Aghion, Philippe and Peter Howitt (2009) *The economics of growth*. The MIT Press.

Acemoglu, Daron (2008) "Oligarchic Versus Democratic Societies," *Journal of the European Economic Association*, MIT Press, vol. 6(1), pages 1-44, 03.

Veselov, D. (2011) Market failures and government failures in the model of transition from stagnation to growth. *Journal of the New Economic Association*. 12, pp 24-39

Veselov D. (2015) Democratization and Barriers to Entry in a Two-Dimensional Voting Model. Working papers by Centre d'Economie de la Sorbonne. Series cesdoc:13050 "Documents de travail du Centre d'Economie de la Sorbonne". 04.2015.

Christa N. Brunnschweiler, Erwin H. Bulte, (2008) The resource curse revisited and revised: A tale of paradoxes and red herrings, *Journal of Environmental Economics and Management*, Volume 55, Issue 3, May 2008, Pages 248-264,

Dietrich Vollrath, (2009) How important are dual economy effects for aggregate productivity?, *Journal of Development Economics*, Volume 88, Issue 2, March 2009, Pages 325-334,

2. The deep roots of comparative development. (6 hours)

Malthusian, post-Malthusian and modern growth regimes. The mechanisms of transition from stagnation to growth. The role of physical and human capital accumulation in the transition process. Direct and indirect effects of geographical factors on economic development. Effects of institutions on economic performance. Reversals of fortune. Natural states and open access societies. Inequality, power struggle and the transition from stagnation to growth.

Required readings:

Acemoglu, D. (2010) *Introduction to modern economic growth*. Chapter 4.

Snowden, Wein (2005) *Modern Macroeconomics: its Origins, Developments and Current State*. Chapter 11.17-11.22

Recommended readings:

Quamrul Ashraf & Oded Galor & Marc Klemp, 2015. "Heterogeneity and Productivity," Working Papers 2015-4, Brown University, Department of Economics.

Galor, Oded and David Weil (2000) "Population, Technology, and Growth: From Malthusian Stagnation to the Demographic Transition and Beyond." *American Economic Review*, 90, pp. 806-828.

Acemoglu, Daron and James Robinson (2012) *Why Nations Fail: The Origins of Power, Prosperity and Poverty*.

North, Douglass, Wallis John Joseph and Barry R. Weingast. (2012) *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*.

Diamond, Jared M. (1997) *Guns, Germs and Steel: The Fate of Human Societies*. W.W. Norton & Co., New York NY.

Robinson, James A, Daron Acemoglu, and Simon Johnson. 2005. "Institutions as a Fundamental Cause of Long-Run Growth." Handbook of Economic Growth 1A: 386-472.
Galor, Oded (2011) Unified Growth Theory. Princeton University Press

Oded Galor & Omer Moav, 2004. "Das Human Kapital: A Theory of the Demise of the Class Structure," Review of Economic Studies. 02/2006; 73(1):85-117

Oded Galor & Omer Moav & Dietrich Vollrath, 2009. "Inequality in Landownership, the Emergence of Human-Capital Promoting Institutions, and the Great Divergence," Review of Economic Studies, Oxford University Press, vol. 76(1), pages 143-179.

Nunn N. (2007) Historical Legacies: A Model Linking Africa's Past to its Current Underdevelopment. Journal of Development Economics. 83(1):157-175

Veselov D. Yarkin A. (2015) Endogenous Institutions and Social Conflict in the model of transition from stagnation to growth. XVI April Economic conference on economic and social development reports. forthcoming

3. Business cycles and the role of the government. (8 hours)

The Great Depression and the birth of Macroeconomics. Keynes's General Theory. Objectives, instruments and the role of the government. Causes and Consequences of the Great Depression. Properties of Business Cycles. The role of fiscal policy in regulating business cycles. Fiscal policy multipliers. The institutional design of fiscal policy. Fiscal rules and discretionary policy. Short run and long run effects of fiscal policy. The role of expectations. Political business cycles and macroeconomic instability. Debt accumulation and fiscal crises. The problem of sustainability of budget deficits. The fiscal and monetary policy in a monetary union. The supply-side politics and their economic effects. Fiscal rules in resource-rich countries. The political economy of the size of the government.

Required readings:

Abel Andrew, Bernanke Ben. (2008) Macroeconomics. Sixth Edition. Pearson Education Inc. Chapter 8. 15

Blanchar O. (2010) Macroeconomics. Chapter 7, 22.3., 23.

Snowden, Wein (2005) Modern Macroeconomics: its Origins, Developments and Current State. 1.4-1.6, 2.6-2.8, 2.14

Recommended readings:

Alesina A., Perotti A.(1995) The Political Economy of Budget Deficits.// IMF Staff Papers. Vol. 42. No. 1. P. 1-31.

Alberto F. Alesina, Silvia Ardagna.(2009) Large changes in fiscal policy: taxes versus spending. NBER Working Paper 15438/- <http://www.nber.org/papers/w15438>

Fiscal Rules—Anchoring Expectations for Sustainable Public Finances // IMF, Fiscal Affairs Department, December 16, 2009. - www.imf.org/external/np/pp/.../121609.pdf

Matthew Denes, Gauti B. Eggertsson, and Sophia Gilbukh(2012) Deficits, Public Debt Dynamics, and Tax and Spending Multipliers// Federal Reserve Bank of New York Staff Reports, no. 551/February 2012

Roberto Iacono. Is it really worse with a Bird in Hand? A comparison of fiscal rules for resource-rich Economies. Norwegian University of Science and Technology. Working Paper Series.No. 3/2012.

Tanzi V., Zee H. (1997) Fiscal Policy and Long-Run Growth // IMF Staff Papers. Vol. 44. No. 2. P. 179-209.

N. Gregory Mankiw and Matthew Weinzierl (2011) An Exploration of Optimal Stabilization Policy//Harvard Business School. Working Paper 11-113.

John F.Cogan Tobias Cwik , JohnB.Taylor, VolkerWieland (2010) New Keynesian versus old Keynesian government spending multipliers. Journal of Economic Dynamics & Control 34. 281–295. www.elsevier.com/locate/jedc

Torsten Persson & Guido Tabellini, 2002. "Political Economics: Explaining Economic Policy," MIT Press Books, The MIT Press, Part II Chapter 6.

Allan Drazen, 2001. "The Political Business Cycle After 25 Years," in: NBER Macroeconomics Annual 2000, Volume 15, pages 75-138 National Bureau of Economic Research, Inc.

Alesina, A., S. Ardagna, and F. Trebbi. (2006) Who Adjust and When? The Political Economy of Reforms // IMF Staff Papers. Vol. 53, Special Issue. (Washington: International Monetary Fund). P.1-29.

Viral V. Acharya, Raghuram G. Rajan (2011) Sovereign Debt, Government Myopia, and the Financial Sector. NBER Working Paper No. 17542. Issued in October 2011

Allan H. Meltzer and Scott F. Richard (1981). A Rational Theory of the Size of Government *Journal of Political Economy*. Vol. 89, No. 5 (Oct., 1981), pp. 914-927

Veselov D.A. (2013). Redistribution and the political support of free-entry policy in the Schumpeterian model with heterogenous agents / Working papers by NRU Higher School of Economics. Series WP BRP "Economics/EC". 2013.

4. Inflation and the design of monetary policy. (6 hours)

Money and the modern financial system. The conventional and non-conventional tools of monetary policy. The short run and long run effect of monetary policy. Transmission channels of monetary policy. Liquidity trap and deflation trap. Desinflation and the role of expectations. Inflation targeting. The Political economy of high inflation. The dynamics of seignorage and inflation in a simple Cagan model. The dynamic inconsistency of macroeconomic policies (Kydland-Prescott model). The central bank independence. The policy of macroeconomic populism, its causes and consequences.

Required readings:

Abel Andrew, Bernanke Ben. (2008) *Macroeconomics*. Sixth Edition. Pearson Education Inc. Chapter 14

Blanchar O. (2010) *Macroeconomics*. Chapter 22.1-22.2, 24

Recommended readings:

Charles_Wyplosz (2009) *What Do We Know about Monetary Policy that Friedman Did Not Know?*// Commission of Growth and Development/The World Bank On behalf of the Commission On Growth and Development/ Working Paper. No.63.

Philippine Cour-Thimann and Bernhard Winkler. *The ECB's non-standard monetary policy measures the role of institutional factors and financial structure*// ECB Working Paper Series. No. 1528 / April 2013.

Jamie Morgan. *The limits of central bank policy: economic crisis and the challenge of effective solutions* //Camb. J. Econ. (2009) 33(4): 581-608 doi:10.1093/cje/bep026

Jane D'Arista. *The evolving international monetary system* //Camb. J. Econ. (2009) 33(4): 633-652 doi:10.1093/cje/bep027

Chari V., Kehoe P., (1999) *Optimal Fiscal and Monetary Policy* // Handbook of Macroeconomics. Taylor J., and Woodford M., eds. Elsevier: Amsterdam.

Sophocles Mavroeidis (2010) *Monetary Policy Rules and Macroeconomic Stability: Some New Evidence*// American Economic Review 2010, 100:1, 491–503

J.Morgan/*The limits of central bank policy: economic crisis and the challenge of effective solutions*// Cambridge. Journal of Economics. (2009) 33 (4): 581-608.

Finn E. Kydland and Edward C. Prescott. (1977) *Rules Rather than Discretion: The Inconsistency of Optimal Plans* Journal of Political Economy . Vol. 85, No. 3 (Jun., 1977), pp. 473-492

Rudiger Dornbusch, Sebastian Edwards (1989) *Macroeconomic Populism in Latin America* NBER Working Paper No. 2986 (Also Reprint No. r1543). Issued in May 1989

5. Introduction to macroeconomics of financial markets. (6 hours)

The role of financial markets in business cycles fluctuations and long-run growth. The properties of assets. The arbitrage condition and the fundamental value of assets. Rational bubbles. Historical example of bubbles. The Minski theory of financial crises. The causes and consequences of modern financial crises.

Required readings:

Blanchar O. (2010) *Macroeconomics*. Chapter 15.2-15.3, 25

Joseph E. Stiglitz . (1990) Symposium on Bubbles.. The Journal of Economic Perspectives, Vol. 4, No. 2. (Spring, 1990), pp. 13-18

Recommended readings:

Brad Jones (2015) Asset Bubbles:Re-thinking Policy for the Age of Asset Management. IMF Staff Paper WP/15/27

Òscar Jordà, Moritz Schularick, Alan M. Taylor (2015) Leveraged Bubbles. NBER Working Paper No. 21486. Issued in August 2015

Stephanie Blankenburg and José Gabriel Palma. Introduction: the global financial crisis //Camb. J. Econ. (2009) 33(4): 531-538 doi:10.1093/cje/bep038

Ricardo J. Caballero, Emmanuel Farhi, Pierre-Olivier Gourinchas (2008) Financial crash, commodity prices and global imbalances. NBER Working Paper 14521/ - <http://www.nber.org/papers/w14521>

James Crotty.(2009) Structural causes of the global financial crisis: a critical assessment of the 'new financial architecture'// Oxford Journals.Social Sciences.Cambridge Journal of economics. Volume33, Issue4.Pp. 563-580

Axel Leijonhufvud. Out of the corridor: Keynes and the crisis //Camb. J. Econ. (2009) 33(4): 741-757 first published online May 29, 2009 doi:10.1093/cje/bep022

Raghuram G. Rajan (2005). Has Financial Development Made the World Riskier? NBER Working Paper No. 11728. Issued in November 2005

6. Economic policies in the open economy. (6 hours)

Balance of payment. Nominal and real exchange rates. The choice of exchange rate regime. Mandell-Fleming model. Economic equilibrium in open economy. External shocks and macroeconomic equilibrium (capital bananzas, sudden stops and the terms of trade shocks). Conditions for currency union. Fiscal and monetary policy in the open economy. Impossible trinity.

Required readings:

Abel Andrew, Bernanke Ben. (2008) Macroeconomics. Sixth Edition. Pearson Education Inc. Chapter 13.1-13.2

Blanchar O. (2010) Macroeconomics. Chapter 18,21

Recommended literature:

Bergin P.(2004) How Well Can the New Open Economy Macroeconomics Explain the Exchange Rate and Current Account.- NBER Working Paper № 10356.

- Rio Chen, Gian Maria Milesi-Ferretti and Thierry Tresselt. (2012) External Imbalances in the Euro Area// IMF Working Paper - WP/12/236. P.12-21.
- James, J., Sarno L. (2012) Handbook of Exchange Rates, John Wiley & Sons, 2012, chapter 2
- Bergin P. (2004) How Well Can the New Open Economy Macroeconomics Explain the Exchange Rate and Current Account.- NBER Working Paper № 10356.
- Paul Krugman, Maurice Obstfeld International Economics: Theory and Policy. 2012. 6th edition. Ch..16,17, 18, 19.
- Mundell, R. A. (1961). "A Theory of Optimum Currency Areas". American Economic Review 51 (4): 657–665.
- Krugman, Paul (August 26, 2014). "Currency Regimes, Capital Flows, and Crises". IMF Economic Review (Palgrave Macmillan) 62: 470–493. doi:10.1057/imfer.2014.9.
- Paul Krugman (1979) A Model of Balance-of-Payments Crises *Journal of Money, Credit and Banking* Vol. 11, No. 3 (Aug., 1979), pp. 311-325
- Olivier Accominotti & Barry Eichengreen, (2013). "The Mother of All Sudden Stops: Capital Flows and Reversals in Europe, 1919-32," NBER Working Papers 19580, National Bureau of Economic Research, Inc.

Grading System

The final grade for the second part of the course (Macroeconomics) will consist of:

- *participation in the class: 20%*
- *a research project 30%*
- *final exam: 50%*