

**Public Policy 475.003 / 750.007**

**Great Depression to Great Recession: Macroeconomic Policy and the Business Cycle**

Josh Hausman

**Course Information and Procedures**

Location and time

Class meets Mondays and Wednesdays 1:10-2:30 in 1220 Weill.

Description

Since the 2008 financial crisis, most developed countries have suffered high unemployment and slow growth. What are options for policymakers in this environment? This course will analyze central issues in macroeconomic policymaking through the lens of history. Students will apply analytical tools to understand the consequences of monetary, fiscal and financial market policy in the Great Depression, in Japan after 1990, and in the recent Great Recession.

Prerequisites

This course assumes prior knowledge of introductory macroeconomics. If you have questions about this, please talk to me.

Course requirements

There will be reading quizzes, 2 problem sets, a short (5 page) paper, a midterm **on 10/14**, and a final **on December 22<sup>nd</sup>, 4pm-6pm**. **NOTE: THE FINAL WILL NOT BE RESCHEDULED** (except for medical reasons). **IF YOU CANNOT MAKE THE FINAL EXAM DATE, YOU SHOULD NOT TAKE THIS CLASS.**

Grades will be weighted as follows:

- Problem sets, reading quizzes (see below), and class participation: 10%
- Short paper: 30%
- Midterm: 25%
- Final: 35%

Contact information and office hours

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Office hours will be Mondays 2:30-4:30 pm in Weill 3309.

### How to do well in this course

This course's combination of economics and history makes it both challenging and rewarding. To do well in the course, you will need to master basic macroeconomic theory. The problem sets are designed to help you do this. You will also need to learn a substantial amount of macroeconomic history. Much of class time will be spent on this, but it will also be essential that you devote significant time to the readings. In number of pages, the reading list is light. Rarely are more than 60 pages assigned in a week. But I will expect that you come to class having read every page carefully. When parts of readings were not critical, I deliberately assigned only excerpts.

To give you an incentive to do the readings before class (and to attend class!), most classes will begin with a very brief one-question, three-minute quiz. It will be a question that will be easy to answer if you have done the reading and difficult to answer if you have not. Since it is likely that you will at some point have a good reason to miss class, I will drop your two lowest quiz scores.

### Students with Disabilities

If you believe you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of this course may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, I can work with the Office of Services for Students with Disabilities to help determine appropriate accommodations. I will treat any information you provide as private and confidential.

## **Reading List**

### Required book:

Deirdre N. McCloskey. 2000. [\*Economical Writing\*](#). Long Grove, IL: Waveland Press (2<sup>nd</sup> edition).

Note: Other than this required book, all readings will be available online (if a link is provided in the syllabus) or posted on ctools.

### I. Introduction and Macroeconomics Review

#### **9/9:** Introductory meeting

- J. Bradford DeLong, "[Why Should we Care: Saturday Twentieth Century Economic History Weblogging](#)," blog post, March 16, 2013.
- Christina D. Romer, "[Lessons from the Great Depression for Policy Today](#)," (Teach-In on the Great Depression and World War II, University of Oklahoma, March 11, 2013).

#### **9/14:** Basic macro review. 1<sup>st</sup> PROBLEM SET HANDED OUT.

- Gregory Mankiw, *Macroeconomics*, Section 10.1, pp. 278-292 only (South-Western Cengage Learning, 6<sup>th</sup> edition, 2012).

**9/16:** Monetary Policy in theory.

- David H. Romer, [\*Short Run Fluctuations\*](#) (open access, 2013), pp. 1-20.

**9/21:** Fiscal Policy and Government Debt. 1<sup>st</sup> PROBLEM SET DUE.

- J. Bradford DeLong. [\*Budgeting and Macro Policy: A Primer\*](#) (Ebook, 2012).

**9/23:** The Role of Policymakers.

- Christina D. Romer and David H. Romer, “Choosing the Federal Reserve Chair: Lessons from History,” *Journal of Economic Perspectives* 18 (Winter 2004): pp. 129-147 only.
- Burton A. Abrams, “How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes,” *Journal of Economic Perspectives* 20 (Fall 2006): pp. 177-188.

## II. The Great Depression

**9/28:** Overview.

- Jeffrey Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century*, Chapter 8, pp. 173-194 (New York: W.W. Norton, 2006).

**9/30:** Monetary Policy with Fixed Exchange Rates. 2<sup>nd</sup> PROBLEM SET HANDED OUT.

- David H. Romer, [\*Short Run Fluctuations\*](#) (open access, 2013), pp. 40-52.

**10/5:** The Gold Standard and the Great Depression

- Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939*, Chapter 1, “Introduction,” pp. 3-28 (New York: Oxford University Press for NBER, 1992).

**10/7:** The Great Depression in the U.S. 2<sup>nd</sup> PROBLEM SET DUE.

- Christina D. Romer, “The Nation in Depression,” *Journal of Economic Perspectives* 7 (Spring 1993): 19-39.

**10/12:** Fiscal Policy and the New Deal.

- Lester V. Chandler, *America’s Greatest Depression, 1929-1941*, Chapter 8 127-143 (New York: Harper & Row, 1970).

**10/14: Midterm**

### III. Japan

#### **10/21:** Japan's financial crisis

- Takeo Hoshi and Anil K. Kashyap, "Japan's Financial Crisis and Economic Stagnation," *Journal of Economic Perspectives* 18 (Winter 2004): pp. 3-26.

#### **10/26:** Monetary Policy in Japan.

- Kazuo Ueda, "Deleveraging and Monetary Policy: Japan Since the 1990s and the U.S. since 2007," *Journal of Economic Perspectives* 26 (Summer 2012): pp. 177-202.

#### **10/28:** Policy options

- Ben S. Bernanke, "Japanese Monetary Policy: A Case of Self-Induced Paralysis?" in Ryoichi Mikitani and Adam S. Posen, eds., *Japan's Financial Crisis and Its Parallels to U.S. Experience*, pp. 149-166 (Washington, D.C.: Institute for International Economics, 2000).

#### **11/2:** Abenomics

- Reading by Joshua Hausman and Johannes Wieland (details to be determined).

#### **11/4:** Special topic: Writing in Economics. PAPER TOPICS HANDED OUT.

- Deirdre N. McCloskey. *Economical Writing*. (Entire book.)

### IV. Financial Crises

#### **11/9:** Asset price Bubbles I

- John Kenneth Galbraith, *The Great Crash: 1929*, Chapter 1, "Vision and Boundless Hope and Optimism," pp. 1-23, Chapter 5, "The Crash," pp. 88-107, and Chapter 6, "Things Become More Serious," pp. 108-113 only (Boston: Houghton Mifflin, 1954, reprinted with a new introduction in 1988).

#### **11/11:** Asset price Bubbles II

- Robert J. Shiller, "Understanding Recent Trends in House Prices and Homeownership," in *Housing, Housing Finance, and Monetary Policy*, pp. 89-123 (Kansas City: Federal Reserve Bank of Kansas City, 2007).

#### **11/16:** Contagion I

- *Economic Report of the President*, 2010, Chapter 6, "Building a Safer Financial System," pp. 159-180 (Washington, DC: Government Printing Office, 2010).

#### **11/18:** Contagion II. OUTLINE AND 1<sup>ST</sup> PARAGRAPH OF ESSAY DUE.

- Gary Richardson and William Troost, "Monetary Intervention Mitigated Banking Panics during the Great Depression: Quasi-Experimental Evidence from a Federal Reserve District Border, 1929–1933," *Journal of Political Economy* 117 (December 2009): pp. 1031-1045 and 1057-1071 only.

### V. Europe today

**11/23:** The Euro and its Crisis

- Readings to be determined

**11/25:** Does the Great Depression have Lessons for Europe?

- Kevin H. O'Rourke and Alan H. Taylor, "Cross of Euros," *Journal of Economic Perspectives*, 27 (Summer 2013): pp. 167-192.

VI. Recession, inequality, and growth in the U.S.

**11/30:** Recession

- *Economic Report of the President*, Chapter 2 pp. 39-55 only (Washington, DC: Government Printing Office, 2010).

**12/2:** Inequality

- Branko Milanovic, "The Return of 'Patrimonial Capitalism': A Review of Thomas Piketty's *Capital in the Twenty-First Century*," *Journal of Economic Literature*, LII (June 2014): pp. 519-534.

**12/7:** Long-run prospects for the U.S. Economy

- Robert J. Gordon, "The Demise of U.S. Economic Growth: Restatement, Rebuttal, and Reflections," NBER Working Paper 19895 (February 2014).

**12/9:** What can policymakers learn from history?

- Barry Eichengreen, "Economic History and Economic Policy," *Journal of Economic History*, 72 (June 2012): pp. 289-307.

**12/14:** Review. PAPER DUE.

**12/22 4pm-6:00pm: FINAL EXAM.**