

Econ 797N: Behavioral and structuralist macro models

Spring 2008

Th 6:00pm - 8:45pm in Thompson 620

Peter Skott

pskott@econs.umass.edu

Office: Thompson 904

Office hours: TuTh 2:30-3:30

The aim of this course is to provide an introduction to formal macroeconomic models within a broadly behavioral and structuralist tradition, incl. Keynesian and neo-Marxian theories. Thus, the course complements Econ 705 on "mainstream" macroeconomic theory and Econ 706 with its broader analysis of issues relating to Keynes's theory and methodology.

Course requirements: four problem sets, a midterm and a final exam, class presentations, and participation in class discussions of the readings.

Preliminary course outline and readings:

1. *Introduction* (1 week)

Readings:

Akerlof, G.A. (2002) "Behavioral macroeconomics and macroeconomic behavior". *American Economic Review*, 411-433.

Akerlof, G.A. (2007) "The Missing Motivation in Macroeconomics". *American Economic Review*, 5-36.

Dutt, A.K. and Skott, P. (2006) "Keynesian Theory and the AD-AS Framework: A Reconsideration". In C. Chiarella, P. Flaschel, R. Franke and W. Semmler (eds) *Quantitative and Empirical Analysis of Nonlinear Dynamic Macromodels*, Elsevier, 2006, pp. 149-172.

Kirman, A.P. (1992) "Whom or what does the representative individual represent?" *Journal of Economic Perspectives*, Vol 6, 117-136

Lucas, R. E. Jr. (1976). "Econometric Policy Evaluation: A Critique," in *The Phillips Curve and the Labor Markets*, ed. K. Brunner and A. Melzer, Carnegie-Rochester Conference Series on Public Policy, 1: 19-46.

Rabin, M. (2002) "A perspective on psychology and economics". *European Economic Review*, 657-685.

2. *The stability problem* (1 week)
- a. The (in-) stability of full employment
 - b. Kaleckian versions

Readings:

Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Macmillan, chapters 1-3 & 19.

Tobin (1975) "Keynesian model of recession and depression", *American Economic Review*, 195-202

Kalecki, M. (1935) "The mechanism of the business upswing". Reprinted in M. Kalecki (1971) *Selected essays on the dynamics of the capitalist economy*, Cambridge University Press.

3. *Full employment, the reserve army and the NAIRU* (2-3 weeks)
- a. Fragility of standard theory
 - b. The reserve army
 - c. Money illusion
 - d. Hysteresis
 - e. Institutional issues

Readings:

Akerlof, G.A. and Yellen, J.L. (1990) "The fair wage-effort hypothesis and unemployment". *Quarterly Journal of Economics*, 255-283.

Akerlof, G.A., Dickens, W.T. and Perry, G.L. (1996) "The macroeconomics of low inflation". *Brookings Papers on Economic Activity*, 1:1996, 1-75.

Arestis, P. and Sawyer, M. (1998) "Keynesian policies for the new millennium". *Economic Journal*, 181-195.

Carlin, W. and Soskice, D. (2005) "The 3-Equation New Keynesian Model — A Graphical Exposition". *Contributions to Macroeconomics*, Volume 5, Issue 1, Article 13

Howell, D.R., Baker, D., Glyn, A. and Schmitt, J. (2006) "Are Protective Labor Market Institutions at the Root of Unemployment? A Critical Review of the Evidence". Mimeo.

Kalecki, M (1943) "Political aspects of full employment". Reprinted in M. Kalecki, *Selected essays on the dynamics of the capitalist economy*, Cambridge: Cambridge University Press, 1971.

Pollin, R. (1998) "The 'reserve army of unemployed' and the natural rate of unemployment': can Marx, Kalecki, Friedman and Wall Street all be wrong?" *Review of Radical Political Economics*, 1-13.

Rowthorn, R. (1977) "Conflict, inflation and money". *Cambridge Journal of Economics*, 215-239.

Shafir, E., Diamond, P. and Tversky, A. (1997) "Money illusion". *Quarterly Journal of Economics*, 341-374.

Skott, P. (1997) "Stagflationary consequences of prudent monetary policy in a unionized economy". *Oxford Economic Papers*, 341-374.

Skott, P. (1999) "Wage formation and the (non--) existence of the NAIRU". *Economic Issues* 4, 77-92.

Skott, P. (2005) "Fairness as a source of hysteresis in employment and relative wages". *Journal of Economic Behavior and Organization*, 305-331.

Solow, R.M. (1990) *The Labor Market as a Social Institution*. Blackwell

4. *Business cycles* (1-2 weeks)
 - a. endogenous vs exogenous cycles
 - b. Keynesian multiplier-accelerator based models
 - c. Marxian models
 - d. Combining Marx and Keynes

Readings:

Goodwin, R.M. (1967) "A Growth Cycle". In C.H. Feinstein (ed.) *Socialism, Capitalism and Growth* (CUP).

Kaldor, N. (1940) "A Model of the Trade Cycle". *Economic Journal* 50, pp.78-92.

Samuelson, P.A. (1939) "A synthesis of the principle of acceleration and the multiplier". *Journal of Political Economy*, 786-797.

Skott, P. (1989) "Effective Demand Class Struggle and Cyclical Growth", *International Economic Review*, 231-47.

5. *Money and finance* (3 weeks)
- a. endogenous money
 - b. stock-flow consistency
 - c. "financialization"
 - d. models of financial crisis / cycles

Readings:

Dos Santos, C.H. (2005) "A stock-flow consistent general framework for formal Minskyan analyses of closed economies". *Journal of Post Keynesian Economics*,

Dos Santos, C.H. and Zezza, G. (2007) "A Simplified, "Benchmark", Stock-Flow Consistent Post-Keynesian Growth Model". Mimeo.

Dutt, A.K. (1995) "Internal finance and monopoly power in capitalist economies: a reformulation of Steindl's growth model". *Metroeconomica*, 46:1, pp. 16-34.

Epstein, G. (2001) "Financialization, Rentier Interests, and Central Bank Policy". PERI

Foley, D. (1987) "Liquidity-profit rate cycles in a capitalist economy". *Journal of Economic Behavior and Organization*, 363-376.

Lavoie, M. and Godley, W. (2001-2002) "Kaleckian growth models in a stock and flow monetary framework: a Kaldorian view". *Journal of Post Keynesian Economics*, 277-311.

Lima, G.T. and Setterfield, M. (2006) "Inflation Targeting and Macroeconomic Stability in a Post Keynesian Economy". Mimeo.

Sethi, R. (1992) "Dynamics of Learning and the Financial Instability Hypothesis". *Journal of Economics*, pp. 39-70.

Skott (1994) "On the modeling of systemic financial fragility". In A.K. Dutt (ed.) *New directions in analytical political economy*, Elgar, 49-76.

Skott, P. and Ryoo, S. (2007) "Macroeconomic implications of financialization". UMass WP 2007-08

Stockhammer, E. (2004) "Financialisation and the Slowdown of Accumulation". *Cambridge Journal of Economics*, 28, pp. 719-741.

Taylor, L. and O'Connell, S.A. (1985) "A Minsky Crisis". *Quarterly Journal of Economics*, 871-885.

6. *The long run* (2 weeks)
- a. stagnationist models
 - b. Harrodian/ classical models
 - c. Policy in the long run

Readings:

Bhaduri, A. and Marglin, S.A. (1990) "Unemployment and the real wage: the economic basis for contesting political ideologies". *Cambridge Journal of Economics*, 375-393.

Dutt, A.K. (1984) "Stagnation, income distribution and monopoly power". *Cambridge Journal of Economics*, 8, pp. 25-40.

Foley, D. and Michl, T. (2001) *Growth and distribution*. Harvard University Press, chapter 10.

Kaldor (1957) "A model of economic growth". *Economic Journal*, 591-624.

Marglin (1984) "Growth, distribution, and inflation: a centennial synthesis". *Cambridge Journal of Economics*, 115-144.

Nakatani, T. and Skott, P. (2007) "Japanese growth and stagnation: A Keynesian perspective". *Structural Change and Economic Dynamics*, 306-332

Schlicht, E. (2006) "Public Debt as Private Wealth: Some Equilibrium Considerations". *Metroeconomica*, 494-520.

Skott, P. (1989a) *Conflict and effective demand in economic growth*. Cambridge: Cambridge University Press

7. *Open economy aspects* (2 weeks)
- a. exchange rates and the current account
 - b. cumulative causation and export-led growth

Readings:

Blecker, R. (1989) "International competition, income distribution and economic growth". *Cambridge Journal of Economics*, 395-412.

Kaldor, N. (1970) "The Case for Regional Policies". *Scottish Journal of Political Economy*, pp. 337-448.

Krugman, P. (1987) "The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher". *Journal of Development Economics*, 41-55.

Razmi, A. (2007) "Using devaluations to pursue diversified growth with less social disruption in a profit-led regime". Mimeo.

Skott, P. and Larudee, M. (1998) "Uneven Development and the Liberalization of Trade and Capital Flows", *Cambridge Journal of Economics*, 277-295.

9. *Uncertainty, "historical time", and the strengths and limitations of formal models*
(1 week)

Readings:

Crotty, J. (1994) "Are Keynesian Uncertainty and Macrotheory Incompatible? Conventional Decision-Making, Institutional Structure and Conditional Stability in Keynesian Macromodels." In G. Dymski and R. Pollin, eds. *New Perspectives in Monetary Macroeconomics*, (Univ. of Michigan Press: Ann Arbor, 1994), pp. 105-47.

Lawson, T. (2006) "The nature of heterodox economics". *Cambridge Journal of Economics*, 30, 483-505

Skott, P. (2005) "Equilibrium, Stability and Economic Growth". In B. Gibson (ed.) *Joan Robinson's Economics: A Centennial Celebration*, Edward Elgar, pp. 173-194.