

Rutgers University Newark
Department of Economics

21:220:402 Current Economic Conditions
26:220: 513 Monetary Theory and Policy

Fall 2021
Tuesdays and Thursdays 4:00-5:20 in Conklin 352

Professor John Graham

How to Contact me:

Email: jwgraham@newark.rutgers.edu Feel free to email me anytime and I will try to respond same day.

Office Hours:

In person every Tuesday and Thursday from 1-1:30pm in 807 Hill Hall.

If you cannot see me in person, you can also my join office hours via Zoom. Use the link below, which can also be found on our Canvas course site.

<https://rutgers.zoom.us/j/96233173429?pwd=STZrZUNYY0hpbFF3ekRLbHY1R1ZKZz09>

Canvas Course Website:

Log into Canvas and navigate to our course for important updated information all semester long. You will find links to some of the class readings there.

Free digital subscriptions to the New York Times and Wall Street Journal:

As this is a course on current economic conditions, it is important to have access to these two national daily newspapers. Rutgers students can subscribe to both for free. Go to the library website (<https://www.libraries.rutgers.edu/>). Use their quicksearch to locate the newspapers. When you sign in with your Rutgers netid and password, you will be able to set up daily digital access to both papers.

Prerequisite

If you are enrolled in Econ 402, you must have completed Econ 302, Intermediate Macro with a grade of C or better. (Under no circumstances can the two courses be taken at the same time.) If in doubt of your eligibility, email me.

Course requirements:

- Class participation (30%), based on attendance, class presentations, and comments.
- First paper (45%) on comparing the business cycles associated with the 2008 and 2020 recessions. (Details of the paper will be posted on Canvas. The first draft of your paper is due Thursday Oct 14. A final revised version is due mid-November.)
- Second paper (25%) on recommendations for monetary policy is due the last day of class, Thursday Dec 9th.

Writing Intensive

This course is designated writing intensive (for undergraduates) and can be used in place of Seminar in Economics (220:406) if economics is your major. Being a good writer means in large part learning to edit yourself and to rewrite what you write. As such, you will have the opportunity to revise your first paper.

Learning Goals for our course:

1. Apply macro theory to the real world and improve your understanding of current economic conditions and contemporary policy debates.
2. Learn more about past, current (and future) monetary policy.
3. Improve your ability to obtain, comprehend and analyze macroeconomic data; and improve your technical writing (and rewriting) skills.

Some useful web links:

Brookings US Economy (<https://www.brookings.edu/topic/u-s-economy/>)

Bureau of Economic Analysis (<https://www.bea.gov/>)

Bureau of Labor Statistics (<https://bls.gov>)

Calculated Risk (<https://www.calculatedriskblog.com/>)

Census Bureau Business Indicators (<https://www.census.gov/economic-indicators/>)

Congressional Budget Office (<https://www.cbo.gov/>)

Department of Labor (<https://www.dol.gov/>)

Econoday (<https://us.econoday.com/byweek.asp?cust=us>)

Economics One by John Taylor (<https://economicsone.com/>)

FOMC minutes: <https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>

Fred: Federal Reserve Economic Data (<https://fred.stlouisfed.org/>)

Liberty Street Blog at the NY Fed (<https://libtystreeteconomics.newyorkfed.org/>)

National Bureau of Economic Research (<https://nber.org/>)

Peter G Peterson Foundation (<https://www.pgpf.org/>)

Schedule of Classes

Sept 2, 7 and 9: Introduction to Some Themes of the Course

- current (and expected future) economic conditions drive monetary policy
- how does the current recession compare with past recessions?
- understanding past, current, and future monetary and fiscal policy options

July 2021 Monetary Policy Report to Congress

<https://www.federalreserve.gov/monetarypolicy/2021-07-mpr-summary.htm>

August 2021 Kansas City Fed Jackson Hole Economic Symposium

<https://www.kansascityfed.org/research/jackson-hole-economic-symposium/>

Minutes from the July 27-28, 2021 FOMC meeting

<https://www.federalreserve.gov/monetarypolicy/fomcminutes20210728.htm>

Sergio Correia, Stephan Luck, and Emil Verner, "Fight the Pandemic, Save the Economy: Lessons from the 1918 Flu," Federal Reserve Bank of New York *Liberty Street Economics*, March 27, 2020, <https://libtystreeteconomics.newyorkfed.org/2020/03/fight-the-pandemic-save-the-economy-lessons-from-the-1918-flu.html>.

John Williams, "Living Life Near the ZLB (Zero Lower Bound)"

<https://www.newyorkfed.org/newsevents/speeches/2019/wil190718>

Michael Ng and David Wessel, "The neutral rate of interest"

<https://www.brookings.edu/blog/up-front/2018/10/22/the-hutchins-center-explains-the-neutral-rate-of-interest/>

John Graham, *Intermediate Macroeconomic Theory*, Ch 15 on Monetary Policy Challenges. (A copy is available on our Canvas course site.)

Sept 14, 16: Business Cycles, GDP, and Related Data

- defining recessions, recoveries and expansions
- getting current and historical data on the economy
- high frequency data in a time of crisis

Using FRED to access macro data: <https://fred.stlouisfed.org>

NBER business cycles: <https://www.nber.org/research/business-cycle-dating>

BEA home page for GDP: <http://www.bea.gov/index.htm>

CBO Potential GDP and the Natural rate of unemployment: www.cbo.gov

BLS on productivity growth: www.bls.gov/bls/productivity.htm

IHS Markit estimates of monthly GDP: <https://ihsmarkit.com/products/us-monthly-gdp-index.html>

Neil Irwin, "The Recession Isn't Over Til They Say It's Over. (But Who are They?)", *The New York Times*, June 14, 2021.

<https://www.nytimes.com/2021/06/14/upshot/pandemic-recession-endpoint.html?searchResultPosition=1>

Tyler Powell, Louise Shelner, and David Wessel, "What is potential GDP, and why is it so controversial right now?" Brookings, February 22, 2021.

<https://www.brookings.edu/blog/up-front/2021/02/22/what-is-potential-gdp-and-why-is-it-so-controversial-right-now/>

US Census Bureau, Household Pulse Survey <https://www.census.gov/programs-surveys/household-pulse-survey/data.html>

Sept 21, 23: Labor Market Conditions

*--why the labor market may be our best barometer of current economic conditions
--monitoring monthly and weekly data on the labor market
--special challenges during time of pandemic*

BLS Monthly Employment Situation Report (Household and Establishment survey);
Job Openings and Labor Turnover (JOLTS)

Department of Labor for New and Continuing Unemployment Claims

Stephanie Aaronson, "What does the unemployment rate measure?" Brookings, February 18, 2021. <https://www.brookings.edu/blog/up-front/2021/02/18/what-does-the-unemployment-rate-measure/>

BLS blog posts about recent labor market data:

--November 24, 2020: Innovations at BLS during the Covid-19 Pandemic.

<https://blogs.bls.gov/blog/2020/11/24/innovations-at-bls-during-the-covid-19-pandemic/>

--June 29, 2020: Update on the Misclassification that Affected the Unemployment Rate. <https://blogs.bls.gov/blog/2020/06/29/update-on-the-misclassification-that-affected-the-unemployment-rate/>

Sept 28, 30: Personal Income, Consumption Spending, Saving, and Household Wealth (assets and debts)

*--some theories of household consumption and saving behavior
--getting quarterly, monthly and weekly data on income, spending, saving and wealth*

BEA for monthly Personal Income and Outlays report; GDP for quarterly data

Federal Reserve Financial Accounts for quarterly household wealth (balance sheet)

Census Bureau Household Pulse survey for weekly spending data

Peter G. Peterson Foundation, "How did Americans spend their [three] stimulus checks?" May 14, 2021. <https://www.pgpf.org/blog/2021/05/how-did-americans-spend-their-stimulus-checks-and-how-did-it-affect-the-economy>

Atif Mian and Amir Sufi, *House of Debt*, Univ of Chicago Press, 2014. (See a quick summary by clicking [this link](#).)

John Graham, *Intermediate Macroeconomic Theory*, Ch 14 appendix on alternative theories of consumption. (A copy is available on our Canvas course site.)

Oct 5, 7: Residential Housing and Business Investment Spending

--*What happens to investment spending in a recession? What has happened this time? What is secular stagnation and what are its causes?*

BEA for quarterly GDP data on investment spending in 5 categories
Census Bureau for monthly data on capital goods
Other monthly data sources: Fed for Industrial Production, ISM index

Larry Summers, "Demand Side Secular Stagnation," *American Economic Review* May 2015. (A pdf is on Canvas under course documents.)

Larry Summers: <http://larrysummers.com/wp-content/uploads/2014/06/NABE-speech-Lawrence-H.-Summers1.pdf>

Bernanke: <https://www.brookings.edu/blog/ben-bernanke/2015/03/31/why-are-interest-rates-so-low-part-2-secular-stagnation/>

Summers: <https://www.brookings.edu/blog/ben-bernanke/2015/04/01/on-secular-stagnation-larry-summers-responds-to-ben-bernanke/>

Oct 12, 14: Government Spending, Net Exports and the Global Saving Glut

What happens to federal (and state and local) spending, taxes, exports and imports in a recession? What has happened in this recession? What is the global saving glut?

Ben Bernanke's Global Saving(s) Glut: <https://www.brookings.edu/blog/ben-bernanke/2015/04/01/why-are-interest-rates-so-low-part-3-the-global-savings-glut/>

Also see part 1 of his Brookings Blog post: <https://www.brookings.edu/blog/ben-bernanke/2015/03/30/why-are-interest-rates-so-low/>

Brookings Hutchins Center Fiscal Impact Measure
<https://www.brookings.edu/interactives/hutchins-center-fiscal-impact-measure/>

FIRST DRAFT OF YOUR RECESSION PAPER IS DUE THURSDAY OCT 14th

Oct 19, 21: Prices and Inflation

--recent behavior of prices (aggregate supply and demand vs quantity theory)

--Is the Fed's inflation target too high or too low? Price level targeting.

--what has happened to the Phillips Curve?

Inflation data: CPI from BLS, PCE from BEA's Personal Income and Outlays monthly report.

Natasha Salwati and David Wessel, "How does the Government Measure Inflation?" June 28, 2021. <https://www.brookings.edu/blog/up-front/2021/06/28/how-does-the-government-measure-inflation/>

Tyler Powell and David Wessel, "What are inflation expectations? Why do they matter?" November 30, 2020. <https://www.brookings.edu/blog/up-front/2020/11/30/what-are-inflation-expectations-why-do-they-matter/>

Hie Joo Ahn and Chad Fulton, "Index of Common Inflation Expectations" September 02, 2020 (and updates). <https://www.federalreserve.gov/econres/notes/feds-notes/index-of-common-inflation-expectations-20200902.htm>

Neil Irwin, "How 10 Prominent Economists Think About Overheating" *The New York Times*, March 24, 2021. <https://www.nytimes.com/2021/03/24/upshot/economy-inflation.html>

Peter G. Peterson Foundation, "Could Covid Relief Lead to Inflation?" April 28, 2021. <https://www.pgpf.org/blog/2021/04/could-covid-relief-lead-to-inflation-heres-what-economists-are-saying>

David Wessel, "Alternatives to the Fed's 2% Inflation Target" Brookings, June 7, 2018 <https://www.brookings.edu/research/alternatives-to-the-feds-2-percent-inflation-target/>

William Chen et al, "What's Up with the Phillips Curve?" Liberty Street Economics, September 18, 2020, <https://libertystreeteconomics.newyorkfed.org/2020/09/whats-up-with-the-phillips-curve.html>

Oct 26, 28: Fiscal Responses to the Great Recession

What was the fiscal policy response to the last recession? Tarp, ARRA Stimulus, Dodd-Frank, Deficit reduction in 2012

Readings by Alan Blinder (*After the Music Stopped*, Penguin, 2012) and some of his papers with Mark Zandi ("[The Financial Crisis: Lesson for the Next One](#)," Center on Budget and Policy Priorities, October 2015).

Nov 2, 4: Fiscal Policy Responses to the 2020 Recession

What Congress did in 2020 to fight the recession and aid recovery.

Peter G. Peterson Foundation on what Congress has done to address Covid-19 and help the economy: <https://www.pgpf.org/blog/2021/03/heres-everything-congress-has-done-to-respond-to-the-coronavirus-so-far>

CBO, The Budgetary Effects of Laws Enacted in Response to the 2020 Coronavirus Pandemic, March and April 2020 (<https://www.cbo.gov/publication/56403>)

Brookings on Fiscal Policy: <https://www.brookings.edu/topic/federal-fiscal-policy/>

Nov 9, 11: Monetary Policy Responses to the Great Recession

Actions of the Bernanke Fed: Emergency Lending, Cut rates to Zero, QE, forward guidance, Section 13 (3) programs

Alan Blinder, *After the Music Stopped*

Bernanke: Lectures 3 & 4 from his 2012 lectures at George Washington Univ: <http://www.federalreserve.gov/newsevents/lectures/about.htm>

Nov 16, 18: Monetary Policy Responses to the 2020 Recession

What has the Fed done to fight the Covid recession and speed economic recovery?

Jeffrey Cheng, Tyler Powell, David Skidmore and David Wessel, "What's the Fed doing in response to the Covid-19 crisis? What more could it do?" March 30, 2021. <https://www.brookings.edu/research/fed-response-to-covid19/>

"Expanding the Toolkit: Facilities Established to Respond to the Covid-19 Pandemic" by Anna Kovner and Antoine Martin, Liberty Street Economics, September 22, 2020. <https://libertystreeteconomics.newyorkfed.org/2020/09/expanding-the-toolkit-facilities-established-to-respond-to-the-covid-19-pandemic.html>

Brookings on Monetary: <https://www.brookings.edu/topic/monetary-policy/>

Nov 30, Dec 2, 7, and 9: Other Topics in Monetary Policy

Possible topics: MMT, New monetary tools (yield curve targeting), conduct of policy

Tyler Powell and David Wessel, “What do changes in the Fed’s Longer-run goals and monetary strategy statement mean?” (<https://www.brookings.edu/blog/up-front/2020/09/02/what-do-changes-in-the-feds-longer-run-goals-and-monetary-strategy-statement-mean/>)

David Skidmore, “The Fed’s review of its monetary policy strategy—and what Brookings’ scholars have to say about it,” August 12, 2020 (<https://www.brookings.edu/blog/up-front/2020/08/12/the-feds-review-of-its-monetary-policy-strategy-and-what-brookings-scholars-have-to-say-about-it/>)

Matthew Higgins and Thomas Klitgaard, “Japan’s Experience with Yield Curve Control,” Federal Reserve Bank of New York *Liberty Street Economics*, June 22, 2020, <https://libertystreeteconomics.newyorkfed.org/2020/06/japans-experience-with-yield-curve-control.html>.

Jane E. Ihrig, Ellen E. Meade, and Gretchen C. Weinbach, “Rewriting Monetary Policy 101: What’s the Fed’s Preferred Post-Crisis Approach to Raising Interest Rates?” *Journal of Economic Perspectives*, Fall 2015.

Kenneth Rogoff, “Dealing with Monetary Paralysis at the Zero Bound” *Journal of Economic Perspectives*, Summer 2017.