

**ECON 310**  
**Fiscal Policy and the Macroeconomy**

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Classes: Mondays and Wednesdays 9-10:30am - Gest 102

Office hours: Chase 214 - Mondays and Fridays: 1pm-4pm, or by appointment.

**Course Synopsis:**

Fiscal policy refers to the use of government spending, taxation and subsidies to influence macroeconomic conditions, including households' consumption, firms' investment, employment, inflation, productivity and economic growth. We will study these policies from the perspective of a few alternative models in economic theory. In some (Neoclassical models), the economy will be assumed to work efficiently so that there will be no scope for policy to prevent undesirable economic fluctuations. This model is an attractive way to think about the economy's long-run. It will also build a basis for a more detailed type of models (New-Keynesian models) in which some frictions will prevent the efficient equilibrium from realizing. Fiscal policy will now be desirable to allow GDP to converge back to full employment. In this context we will touch upon the criticisms which have been levied at the Neoclassical theory regarding what it implies for economic policy. We will also study the role of fiscal policy in the context of an open economy, and its implications for interest rates, exchange rates and international financial flows.

Required text: "Intermediate Macroeconomics" by Julio Garin (Univ. of Georgia), Robert Lester (Colby College) and Eric Sims (Univ of Notre Dame). This book is available for public use and for free as a pdf file in Eric Sims' website [https://www3.nd.edu/~esims1/gls\\_textbook.html](https://www3.nd.edu/~esims1/gls_textbook.html)

Optional text: "Applied Intermediate Macroeconomics", by Kevin D. Hoover (Duke University), Cambridge University Press. This will be useful for applications, connections of the material to the data and for the research project. The e-book version is only around \$50.

**Grading:**

1. **Classwork (60% total):**
  - a. Problem sets (5): 4% each
  - b. Midterms (2): 20% each
2. **Research (40% total):** Details on research components are presented below. I will schedule two individual meetings with each student. The first one will happen right after spring break and before the research proposal is due. The second one will take place in early May, two weeks before the final paper is due. This is a way to formally build the feedback on students' research into the course requirements. Of course, in addition to these meetings, students are always welcome to bring their research questions to my regular office hours.

**Topics:**

- I) Introduction to the course's overarching theme: The academic AND policy debate on the size of the fiscal multiplier
- II) The Building Blocks to the Study of Fiscal Policy
  - a. A dynamic consumption-saving model
  - b. Equilibrium in an endowment economy
  - c. Equilibrium in a production economy: Labor markets and production
  - d. Equilibrium in a production economy: Capital, investment and production
  - e. Equilibrium efficiency
  - f. Fiscal policy in this model
- III) Fiscal Policy in the Long Run
  - a. The Neoclassical Model
  - b. Effects of fiscal policy shocks in this model
  - c. Policy implications, criticisms and defense of the model
- IV) Fiscal Policy in the Short Run
  - a. The New Keynesian model
  - b. Effects of fiscal policy shocks in this model
- V) Dynamics: The Transition Path from the Short Run to the Long Run
- VI) A More Meaningful Role for Government Spending
  - a. Production benefits
  - b. Human capital accumulation
  - c. Public goods and consumption benefits
  - d. Relaxation of credit constraints

**Research Work:**

The most important component of this course is to allow students to engage in original, independent research. A term paper will be required at the end and continuous feedback will be given by the instructor during office hours on an individual basis.

The paper is intended to contain original research and it must include empirical work.

The topic will be of the students' choosing among the following six broad categories:

- a. The American Recovery and Reinvestment Act (ARRA) and the differential effects of fiscal policy across categories of spending
- b. Identifying fiscal policy shocks through the use of micro-data or state-level data
- c. The link between firms borrowing constraints or households financial inclusion and the size of fiscal multipliers
- d. The impact of government default on firms' productivity / Fiscal policy, entrepreneurial activity and firm dynamics
- e. The link between government debt and the supply of credit: A "bank lending channel of fiscal policy?"
- f. Forecasting the effects of the current tax reform using a DGE model

These are topics that I have and I am currently doing research on myself. Thus, I have plenty of literature references, some of my own articles and datasets ready to share with you. If we start from this

foundation and (of course) if you do good enough work, my intention is to submit improved and revised versions of these papers for publication in peer-reviewed academic journals. This could also become the building blocks for your theses at Haverford. Publication as an undergraduate student will be extremely important for all of you, especially if graduate school is in your plans for the future.

The research component of the course includes the following elements:

**a. First literature presentation (5%):**

Students will be grouped in small teams by topics a-f listed above. They will be required to present a summary of their literature review on the papers selected by the instructor for each topic. Students are required to use slides in their presentation. EVERYBODY in the class is expected to contribute to the discussion and the papers discussed during these presentations will be covered on the midterm exams. Presentation dates (tentative) are listed below.

**b. Second literature presentation (5%):**

See above.

**c. Research proposal (5%):**

Students will individually submit a proposal of their research idea. These proposals should be between 3 and 4 pages (single space, 12 font). At a minimum, proposals should include the research question, the papers in the literature to build on (in addition to those indicated by the instructor for the literature presentations), and the datasets that the students intends to use.

**d. Paper presentation (10%):**

During the last four class meetings, students will give presentations based on their research papers. Presentations should represent original research and be accessible and understandable to the audience of the class. Presentations should be 10-20 minutes long (longer time may be allowed depending on class enrollment). ATTENDANCE AT ALL RESEARCH PROJECT PRESENTATIONS IS REQUIRED. Every student in the class will provide written feedback to each presenter.

**e. Post-presentation reflection piece (5%):**

Students will be required to write a one-page reflection piece related to what they learned through the research process, what the main challenges were, what strengths and weaknesses of their own that they discovered while working on the paper, what the paper encouraged them to think about as they take more classes in the future or as they prepare to write their thesis.

**f. Research paper (10%):**

The paper will be due during final exams week. It must contain independent and original work. The research project as a whole, and the research paper in particular, is a semester-long process which students should begin working as soon as the semester starts. The paper should be between 10 and 13 pages (single space, 12 font).

## Readings for First Literature Presentation:

### Topic a:

- “The Economic Impact of the ARRA”, by Mark Zandi, Moody’s report, January 2009.
- “The Political Economy of Discretionary Spending: Evidence from the ARRA”, by Christopher Boone et al, *Brookings Papers on Economic Activity*, spring 2014, pp. 375-428.

### Topic b:

- “Did the Stimulus Stimulate: Real-Time Estimates of the Effects of the ARRA”, by James Feyrer and Bruce Sacerdote, National Bureau of Economic Research (NBER) working paper #16759, February 2011.

### Topic c:

- “Liquidity Constraints, Fiscal Policy, and Consumption”, by Glenn Hubbard et al, *Brookings Papers on Economic Activity*, Vol. 1986(1), pp. 1-59.
- “The Savers-Spenders Theory of Fiscal Policy”, by Gregory Mankiw, *NBER working paper #757*, February 2000.

### Topic d:

- “The Role of Policy and Institutions for Productivity and Firm Dynamics: Evidence from Micro and Industry Data”, by Stefano Scarpetta et al, *OECD Economics Department Working Paper No. 329*, April, 2002. Available at SSRN: <https://ssrn.com/abstract=308680>

### Topic e:

- “What do a Million Observations on Banks Say about the Transmission of Monetary Policy?” Available at <http://faculty.chicagobooth.edu/anil.kashyap/research/papers/recall.pdf>
- “Bank Size, Bank Capital and the Bank Lending Channel” by Ruby Kishan and Timothy Opiela, *Journal of Money, Credit and Banking*, 2000, Vol. 32(1), pp. 121-141.

### Topic f:

- “Macroeconomic Analysis of the Tax Cuts and Jobs Act as Passed by the Senate”, by Benjamin Page et al, Urban-Brooking Tax Policy Center, December 11<sup>th</sup>, 2017.
- “Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act”, Tax Policy Center staff, December 2017.
- “Winners and Losers after Paying for the Tax Cuts and Jobs Act”, by William Gale et al, Urban-Brooking Tax Policy Center, December 8<sup>th</sup>, 2017.

All articles available at: <http://www.taxpolicycenter.org/research-commentary>

## **Readings for Second Literature Presentation:**

### **Topic a:**

- “The Case for Fiscal Stimulus: The Likely Effects of the ARRA”, speech by Christina Romer, February 2009.
- “The ARRA: Solely a Government Jobs Program?”, by Timothy Conley and Bill Dupor, *Journal of Monetary Economics*, July 2013, Vol. 60(5), pp. 535-549.

### **Topic b:**

- “From the Financial Crisis to the Real Economy: Using Firm-Level Data to Identify Transmission Channels”, by Stijn Claessens, *Journal of International Economics*, Vol. 88(2), November 2012, pp. 375-387.

### **Topic c:**

- “Government Debt, Redistributive Fiscal Policies, and the Interaction Between Borrowing Constraints and Intergenerational Altruism”, by David Altig and Steve Davis, *Journal of Monetary Economics*, Vol. 24(1), July 1989, pp. 3-29.
- “Debt, Deleveraging and the Liquidity Trap: A Fisher Minsky-Koo Approach”, by Gauti Eggertsson and Paul Krugman, New York Fed working paper, November 2010.

### **Topic d:**

- “Fiscal Policy and TFP in the OECD: Measuring Direct and Indirect Effects”, by Gerdi Everaert et al, *Empirical Economics*, September 2015, Vol. 49(2), pp. 605-640.
- “The Role of Government Policy on Entrepreneurial Activity: Productive, Unproductive or Destructive?”, by Maria Minniti, *Entrepreneurship Theory and Practice*, Vol. 32(5), September 2008, pp. 779–790.

### **Topic e:**

- “Fiscal Policy, Banks and the Financial Crisis” by Robert Kollman et al, *Journal of Economic Dynamics and Control*, Vol. 37(3), February 2013, pp. 387-403.

### **Topic f:**

- “Economic Reactions to Public Finance Consolidation: A Survey of the Literature”, by Gabriella Briotti, *European Central Bank Occasional Papers #38*, November 2005.
- “The impact of employment tax cuts on unemployment and wages; The role of unemployment benefits and tax structure”, by Christopher Pissarides, *European Economic Review*, Vol. 42(1), January 1998, pp. 155-183.
- “How US Corporate Tax Reform will Boost Growth”, by Robert Barro, *Project Syndicate Long Reads*.

### Tentative Calendar

Class #	Date	Day	Topic	Materials and Readings	Course Material Due
1	22-Jan	M	Course introduction and introduction to research		
2	24-Jan	W	I) The debate on the size of fiscal multipliers	From syllabus: 1, 2, 3 and 4	Research topics/teams chosen
3	29-Jan	M	II)a. Dynamic consumption-saving model	Textbook chs. 8 and 9	
4	31-Jan	W	II) b. Equilibrium endowment economy	Textbook ch. 10	
5	5-Feb	M	II) c. Equilibrium production economy, labor markets	Textbook ch. 11	Problem Set #1 due (on chapters 8-10)
6	7-Feb	W	II) d. Equilibrium production economy, capital and investment	Textbook ch. 11	
7	12-Feb	M	II) e. and f. Fiscal policy in the basic model and equilibrium efficiency - social planner's choices	Textbook ch. 12 and 14	Problem Set #2 due (on chapter 11)
8	14-Feb	W	III) Fiscal policy in the long-run	Textbook ch. 15 and 16	
9	19-Feb	M	III) Fiscal policy in the long-run	Textbook ch. 19 and 20	Problem Set #3 due (on ch.12)
	21-Feb	W	<b>MIDTERM 1</b>		
10	26-Feb	M	<b>First literature presentation</b>		Slides deck due
11	28-Feb	W	IV) Fiscal policy in the short-run	Textbook ch. 21	
12	5-Mar	M	IV) Fiscal policy in the short-run	Textbook ch. 22	
13	7-Mar	W	IV) Fiscal policy in the short-run	Textbook ch. 23	
	9-Mar	F	Spring break begins at 4pm		
	12-Mar	M	Spring break		
	14-Mar	W	Spring break		
	18-Mar		Spring break ends		

<b>14</b>	19-Mar	M	IV) Fiscal policy in the short-run in an open economy	Textbook ch. 27	
<b>15</b>	21-Mar	W	<b>Second literature presentation</b>		Research proposal and slides deck due
<b>16</b>	26-Mar	M	VI) a. Production benefits of government spending	Instructor's lecture notes and references therein	Problem Set #4 due (on ch. 21, 22 and 23)
<b>17</b>	28-Mar	W	VI) b. Public goods and consumption benefits	Idem	
<b>18</b>	2-Apr	M	VI) c. Human capital accumulation and government spending	Idem	
<b>19</b>	4-Apr	W	VI) d. Government spending, R&D and growth	Idem	
	9-Apr	M	VI) e. Government spending and credit constraints	Idem	Problem set #5 due (on section VI)
<b>20</b>	11-Apr	W	Catch-up and midterm review		
<b>21</b>	16-Apr	M	<b>MIDTERM 2</b>		
<b>22</b>	18-Apr	W	In-class lab #1: empirical work	Datasets for each research topic a-f	
<b>23</b>	23-Apr	M	In-class lab #2: empirical work	Datasets for each research topic a-f	
<b>24</b>	25-Apr	W	Student papers presentations		Slide decks due
<b>25</b>	30-Apr	M	Student papers presentations		Slide decks due
<b>26</b>	2-May	W	Student papers presentations		Slide decks due
	3-May	Th	<b>Post-research reflection piece due at 10pm</b>		Reflection piece
	4-May	F			
	5-May		Reading period begins		
	7-May	M			
	8-May	T	Reading period ends		
	9-May	W	Final exams period begins		

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19- May	Sat	<b>Final paper due at noon</b>	Final paper
25- May	F	Course grades due to Registrar's Office	

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