

Macroeconomic Issue Essays
First Essay Due: Friday, 26
Second Essay Due: Monday, May 6

Your final assignment is to write two compact, carefully polished essays on current macroeconomic issues facing the U.S. economy. Each essay will receive an equal weight for your course grade.

The topics of the two essays are your choice. Here are suggestions based on the material covered in the second part of our course along with some hints about issues that you could choose to consider. Note that you are not required to address all the issues listed under each topic and there are certainly important things to explore that are not listed.

1. Conditions that caused the financial crisis and the Great Recession

- What events and trends led to the conditions that caused the recession? (Consider interpreting these events with Minsky's financial instability theory.)
- What triggered the crisis?
- What do the events of this significant crisis teach us about the relevance of different macroeconomic theories? (In particular, what do we learn about the usefulness of the three major theoretical paradigms covered in the course.)
- What are the policy lessons? How do they relate to the underlying theoretical perspectives that are most useful in explaining these dramatic events

2. The slow recovery from the crisis ("secular stagnation")

- What data support the case for slow recovery?
- Take a stand on whether "secular stagnation" is an appropriate description of the US economy in the years since 2008. Does the term apply in early 2019?
- What explains sluggish growth for many years?
- How does this experience inform us about the relevance of different macroeconomic theories?
- What kind of policy responses does your analysis suggest?

3. Monetary policy

- What macroeconomic circumstances recommend an activist, expansionary monetary policy? How does the answer to this question depend on one's theoretical perspective? (That is, consider the importance of monetary policy from the point of view of the three theoretical paradigms discussed in class.)

- Describe the channels through which monetary policy affects economic activity. Consider both conventional policy channels and the less common approaches pursued in the aftermath of the 2008-09 financial crisis.
- What limits the effectiveness of monetary policy?
- What are the risks of implementing expansionary monetary policy?
- What does your analysis recommend about monetary policy in early 2019?

4. Fiscal policy

- Define supply-side and demand-side channels for fiscal policy. Link the channels to different macro theories.
- In what ways do the supply-side and demand-side effects reinforce or offset each other?
- What kind of evidence is relevant in assessing which channels are most effective?
- Discuss debates about how government spending and public deficits can crowd out private economic activity?
- Compare the demand-side effects of fiscal policy to monetary stimulus? When is one or the other the preferred approach to provide macro stimulus?
- What is your assessment of fiscal policy in early 2019? Consider the effectiveness of the Trump / Republican tax cut bill passed in late 2017. Assess the effects of larger government deficits and rising federal debt. What do you think about the macro impact of a large government infrastructure program (a policy that seems to get some support from both sides of the political debate).

5. The macroeconomics of international trade

- Summarize the microeconomic “comparative advantage” argument for free international trade.
- Analyze the claim that low-wage countries are “stealing” U.S. jobs? Consider various theoretical perspectives.
- Under what circumstances does the U.S. macro trade deficit lead to some kind of “weakness” in the U.S. economy, as argued by President Trump?
- Assess the case for protectionist policies.
- Consider alternative policies to address the challenges of economic dislocation and stagnation that seemed important to the electoral victory of President Trump in 2016 and motivate many of his policies while in office.

6. Intrinsic Keynesian dynamic models and the role of autonomous demand. (This is not so much a “current issue” topic, but it can be linked into current issues and might be interesting for students who are more theoretically inclined.)

- Begin with a careful reading of the Fazzari-Ferri-Variato (FFV) manuscript, “Demand-Led Growth with Accommodating Supply.”

- Define “autonomous demand” and discuss the important role it can play in driving demand-led growth.
- How do the basic conditions of supply and demand interact along a model economy’s growth path?
- Contrast the fundamental results of the FFV model with the mainstream neoclassical synthesis. Explain the phrase “the relevance of demand beyond the short run.”
- Finish your essay with a discussion of how the model can be used to help explain major recent issues in the US economy such as the consumption-debt-led growth in the period prior to Great Recession and secular stagnation in the aftermath of the crisis.

You may choose different topics, although they should have clear relevance to the course. If you plan to deviate significantly from the topics discussed above, it would be a good idea to clear your ideas with Professor Fazzari.

Note that for every topic suggested above, *you should base your analysis on the theoretical framework developed in the first half of our course*. That is, you should explicitly ground your analysis in the classical model, the conventional Keynesian model, or the intrinsic Keynesian model. It would be useful to justify your choice of model (or possibly a mixture of models) and explain how your choice of theoretical framework could lead to different conclusions compared to alternatives.

You have received a number of readings that discuss aspects of these topics. Pay particular attention to articles on the news list page. You should use these readings to help guide your thinking about the essay. Try to use quotations from the readings to illustrate and support the points that you make. *Your paper grade will depend in part on your effective use of course readings and material from the news list page.* Your paper will likely draw primarily on analysis that we have covered in class and course reading. While you may use outside sources about the current U.S. economy if you find them helpful, it is not necessary to do outside research that goes beyond the class discussions and readings. (Any idea you obtain from readings, including those assigned for the class, must be appropriately cited. Include a reference list for all readings that you cite in the paper.)

The target length for each of your essays is 1,400 to 2,200 words. (A brief analysis of final essays in this format from spring, 2018 showed that essays averaged about 1,700 words in length. There was very little correlation between the essay length and the grade.) No strict length limit will be imposed but I strongly encourage you to consider cutting down your essay if it starts to go beyond 2,500 words. While the grading will not impose a formulaic penalty for essays beyond this limit, I will look for redundancy or inefficient writing, especially if the essay is long. You should feel free to develop the good ideas that you have, but make all your words count!

As with all assignments submitted in Econ 448W, you should pay careful attention to your writing. The papers that you turn in should be the *best prose you have ever written*. This is the capstone assignment of your advanced, writing-intensive seminar, a central part of your undergraduate education. Make every effort to show that your writing style has achieved clarity, and hopefully even some grace.¹ This ambitious objective for this assignment implies that you will need to write first drafts and revise them, hopefully several times, over a period longer than two or three days. While the material we cover in the final few weeks of the class will be relevant for this assignment, you have everything you need to begin work on this assignment immediately.

Submit your paper by e-mail to Professor Fazzari at fazz@wustl.edu before the end of the day on the due date. Please use your course ID numbers.

A final comment about the due date and grading plans: If you can finish your papers a few days early please submit them early so that I can get going on the grading, which is very time consuming for this assignment. As a small incentive, papers will be returned roughly in the order that they are submitted, so you can expect fast turnaround if your paper comes in before the due date. Extensions are possible, following the standard procedures for the course, but they will have to be very limited for graduating seniors (especially for the second assignment) because final grades for graduating students must be submitted not long after the official due date.

¹ If you don't immediately appreciate the allusion to the Bizup-Williams book in this sentence, you haven't spent enough time with it!