

ECO. 7008: MACROECONOMIC THEORY II

The objective of the course is to give an intuitive understanding of macrodynamic analysis by studying a broad range of heterodox (and some orthodox) theories of growth and business cycles. The course begins with a comparative analysis of Keynes' formulation of the theory of effective demand in his *Treatise on Money* and *The General Theory*. This is followed by an overview of the business cycle theories, and the early growth theory, which are both inspired by the theory of effective demand. In the latter part of the course, the recent heterodox approaches to growth theory are examined along with a review of the mainstream 'new' growth theory

Assigned articles will be made available by the instructor for copying. Readings indicated with an asterisk are recommended, and all others are required.

COURSE OUTLINE

1. Historical & Methodological Introduction

Walsh, V. & H. Gram (1980) "Prologue" in *Classical and Neo Classical Theories of General Equilibrium*. Oxford University Press.

Nell, E.J. (1996). "Introduction" & Ch. 1 in his *Making Sense of a Changing Economy*, Routledge, New York.

Ertürk, K. (1996) "On the Keynesian Notion of Equilibrium and Dynamics," *Cambridge Journal of Economics*, 20(3).

* Garegnani, P. (1984). "Value and Distribution in the Classical Economists and Marx," *Oxford Economic Papers*, 36, pp. 291-325.

2. Keynes and the Theory of Effective Demand

i. *A Treatise On Money*

Keynes, J.M. (1930) *A Treatise on Money*, Vol. I, Chps. 10-11, 15-19

Viceralli, F. (1984) Keynes: *The Instability of Capitalism*, Chp. 3 – 6.

ii. *General Theory*

Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Chps. 10-14

Viceralli, F. (1984) Keynes: *The Instability of Capitalism*, Chp. 7 – 9.

Keynes, J.M. (1937) "General Theory of Employment," *Quarterly Journal of Economics*, February.

* Bernstein, P. (1998). "Stock Market Risk in a Post-Keynesian World," *Journal of Post Keynesian Economics*, 21(1), Fall.

* Erturk, K. (2001). "Asset Prices, Liquidity Preference and the Business Cycle." Mimeo.

iii. *Classicals and the Theory of Effective Demand*

- Eatwell, J. (1983) "Theories of Value, Output and Employment," in J. Eatwell & M. Milgate (eds.) *Keynes' Economics and the Theory of Value and Distribution*.
- Erturk, K. (1998) "From the Treatise to the General Theory: The Transformation of Keynes's Theory of Investment in Working Capital," *Cambridge Journal of Economics*, 22, pp. 173-185.
- Pasinetti, L. (1974) *Growth and Income Distribution*, Ch. 2: 'The Economics of Effective Demand.'

3. Business Cycle Theory

- Samuelson, P. (1939). "Interactions Between the Multiplier Analysis and the Principle of Acceleration," *Review of Economic Statistics*, pp. 75-78.
- Kalecki, M. (1937). "A Theory of the Business Cycle," *Review of Economic Studies*, Vol. 4(2), pp. 77-97.
- Kaldor, N. (1940). "A Model of the Trade Cycle," *The Economic Journal*, pp. 78-92.
- Chang, W. & D. Symth (1971). "The Existence and Persistence of Cycles in a Non-linear Model:Kaldor's 1940 Model Reexamined," *Review of Economic Studies*, 38: 37-46.
- Goodwin, R.M. (1951). "The Non-Linear Accelerator and the Persistence of Business Cycles," *Econometrica*, pp. 1-17.
- Schinasi, G. (1981). "A Non-linear Dynamic Model of Short-run Fluctuations," *Review of Economic Studies*, 48: 649-656.
- Metzler, L.A. (1941) "The Nature of Stability of Inventory Cycles," *Review of Economics and Statistics*, 23, 113-29.
- * Gabish, G. & H.W. Lorenz (1987). *Business Cycle Theory*, Chps 2,4.
 - * Varian, H.R. (1979). "Catastrophe Theory and the Business Cycle," *Economic Inquiry*, 17, pp. 14-28.
 - * Hicks, J.R. (1950). *A Contribution to the Theory of the Trade Cycle*, Oxford University Press, Oxford.

4. Early Growth Theory

i. *Harrodian Instability*

- Harrod, R.F. (1939). "An Essay in Dynamic Theory," *The Economic Journal*, pp. 14-33.
- Domar, E. (1946). "Capital Expansion, Rate of Growth and Employment," *Econometrica*, pp. 137-47.
- Solow, R.M. (1956). "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, Vol. 70.
- Kaldor, N. (1955-6). "Alternative Theories of Distribution," *Review of Economic Studies*, pp. 94-100.
- * Kregel, J.A. (1980). "Economic Dynamics and the Theory of Steady Growth," *History of Political Economy*, pp. 97-123.
 - * Nell, E.J. (1982). "Growth, Distribution, and Inflation," *Journal of Post Keynesian Economics*, vol. 5(1).

- * Shaikh, A. (1991) "Wandering Around the Warranted Path: Dynamic Nonlinear Solutions to the Harrodian Knife Edge," in Nell & Semmler (eds.) *Nicholas Kaldor and Mainstream Economics*.

5. Heterodox Approaches to Growth Theory

i. Stagnationist, Neo-Keynesian and Marxian

- Harris, D. (1975). "The Theory of Economic Growth. A Critique and Reformulation," *American Economic Review*, May.
- Steindl, J. (1979). "Stagnation Theory and Stagnation Policy," *Cambridge Journal of Economics*, 3.
- Steindl J. (1952/1976). Chapters XI and X, *Maturity and Stagnation in American Capitalism*, Monthly Review Press.
- Goodwin, R.M. (1967). "A Growth Cycle," in C.H. Feinstein (ed.) *Socialism, Capitalism and Economic Growth*, Cambridge University Press, Cambridge.
- Shaikh, A. (1987) "The Falling Rate of Profit and the Economic Crisis in the US," in R. Cherry et.al. (eds.) *Imperiled Economy. Macroeconomics from a Left Perspective*. Published by URPE.
- * Kaldor, N. (1961). "Capital Accumulation and Economic Growth," in F.A. Lutz (ed.) *The Theory of Capital*, St. Martin's Press, New York.
 - * Dutt, A.K. (1995). "Internal Finance and Monopoly Power in Capitalist Economies: A Reformulation of Steindl's Growth Model," *Metroeconomica*, 46(1).
 - * Kalecki, M. (1962). "Observations on the Theory of Growth," *The Economic Journal*, pp. 134-53.

ii. Neo-Schumpeterian and Neo-Marxian

- Gordon, D., T. Weisskopf & S. Bowles, (1983). "Long Swing and Nonproductive Cycle," *American Economic Review*, pp. 152-7.
- Nell, E.J. (1992). "Transformational Growth, Mass Production and the Multiplier," in E.J. Nell (ed.) *Transformational Growth and Effective Demand*, New York University Press.
- Freeman, C. & C. Perez (1988). "Structural Crises of Adjustment, Business Cycles and Investment Behavior," in Dosi, G., Freeman, C., Nelson, R., Silverberg, G., & L. Soete (eds.) *Technical Change and Economic Theory*, Pinter Publishers, London.
- Dosi, G. "Opportunities, Incentives and the Collective Patterns of Technological Change," *The Economic Journal*, 107, pp. 1530-47.
- Erturk, K. (2001) "Revisiting the Old Theory of Cyclical Growth: Harrod, Kaldor *cum* Schumpeter," *Review of Political Economy*, 14(2).
- * Piori, M. (1993). "The Revival of Prosperity in Industrial Economics: Technological Trajectories, Organizational Structure, Competivity," in D. Foray & C. Freeman (eds.) *Technology and the Wealth of Nations*, Pinter Publishers.
 - * Breschi, S., Malerba, F. & L. Orsenigo (2000). "Technological Regimes and Schumpeterian Patterns of Innovation," *The Economic Journal*, 110, pp. 388-410.

6. 'New' Growth Theory

- Nelson, R. (1994). "What has been the Matter with Neoclassical Growth Theory?" in G.Silverberg & L. Soete (eds.) *The Economics of Growth and Technological Change*, Edward Elgar.
- Solow, R.M. (1994). "Perspectives on Growth Theory," *The Journal of Economic Perspectives*, Winter.
- Romer, P.M. (1994). "The Origins of Endogenous Growth," *Journal of Economic Perspectives*, Winter.
- Fine, B. (2000). "Endogenous Growth Theory: A Critical Assessment," *Cambridge Journal of Economics*, 24, pp. 245-65.
- * Abromovitz, M. (1993). "The Search for the Sources of Growth: Areas of Ignorance, Old and New," *Journal of Economic History*, 53, pp. 217-43.
- * Grossman, G.M. & E. Helpman (1994). "Endogenous Innovation in the Theory of Growth," *Journal of Economic Perspectives*, Winter.