

Lectures on Macroeconomics

Olivier Jean Blanchard and
Stanley Fischer



The MIT Press
Cambridge, Massachusetts
London, England

Contents

Preface xi

1 Introduction 1

- 1.1 Macroeconomic Facts 1
- 1.2 An Overview of the Book 21
- 1.3 Prelude 26
- Notes 29
- References 32

2 Consumption and Investment: Basic Infinite Horizon Models 37

- 2.1 The Ramsey Problem 38
- 2.2 The Decentralized Economy 48
- 2.3 The Government in the Decentralized Economy 52
- 2.4 Application: Investment and Saving in the Open Economy 58
- 2.5 The Utility Function 69
- Appendix A: Ruling Out Explosive Paths in the Ramsey Model 75
- Appendix B: Local Behavior of Capital around the Steady State in the Ramsey Model 75
- Appendix C: Command Optimum and Decentralized Equilibrium in the Open Economy Model 76
- Appendix D: Saddle Point Equilibrium in the Linearized (k, q) System 77
- Problems 78
- Notes 81
- References 88

3 The Overlapping Generations Model 91

- 3.1 Two-Period Lives 92
- 3.2 Social Security and Capital Accumulation 110

3.3 A Model of Perpetual Youth	115
3.4 Fiscal Policy: Debt and Deficit Finance	126
3.5 Aggregate Saving and the Interest Rate	135
Problems	143
Notes	146
References	151

4 Money 154

4.1 The Overlapping Generations Model with Money	156
4.2 Explaining the Use of Money	164
4.3 A General Equilibrium Baumol-Tobin Model	168
4.4 Real Effects of Open Market Operations	181
4.5 Money in the Utility Function	188
4.6 Money, Inside and Outside	193
4.7 Seigniorage and Inflation	195
Appendix A: Derivation of Individual Behavior in Section 4.3	201
Appendix B: Derivation of Local Dynamics and Stability in the Sidrauski Model	204
Problems	205
Notes	206
References	210

5 Multiple Equilibria, Bubbles, and Stability 213

5.1 Solutions to a Simple Equation	214
5.2 Bubbles on Assets in General Equilibrium	226
5.3 Price Level Bubbles, Hyperinflations, and Hyperdeflations	239
5.4 Multiple Equilibria, Sunspots, and Cycles	245
5.5 Learning	257
5.6 Conclusions	260
Appendix: A Tool Kit of Solutions to Linear Expectational Difference Equations	261
Problems	266
Notes	267
References	270

6 Optimal Consumption, Investment, and Inventory Behavior 275

6.1 The State of Play	277
6.2 The Consumption/Saving Choice under Uncertainty	279
6.3 Investment under Uncertainty	291

6.4 Inventory Behavior under Uncertainty 301

Problems 308

Notes 310

References 315

7 Competitive Equilibrium Business Cycles 320

7.1 Productivity Shocks, Consumption, and Capital Accumulation 321

7.2 Output and Employment Fluctuations 337

7.3 Unemployment, Heterogeneity, Shocks, and Imperfect Information 346

Problems 361

Notes 362

References 367

8 Nominal Rigidities and Economic Fluctuations 372

8.1 Price Setting under Monopolistic Competition 376

8.2 Time-Dependent Rules, Stagging, and the Effects of Money 388

8.3 State-Dependent Rules and the Effects of Money 402

8.4 Conclusion 413

Problems 414

Notes 417

References 423

9 Goods, Labor, and Credit Markets 427

9.1 Labor Markets: Introduction 428

9.2 Contracts, Insurance, Real Wages, and Employment 429

9.3 Unions, Insiders, Real Wages, and Employment 438

9.4 Efficiency Wages 455

9.5 Goods Markets 463

9.6 Financial Markets and Credit Rationing 478

9.7 Conclusions 488

Problems 489

Notes 493

References 498

10 Some Useful Models 505

10.1 Equilibrium Models and Asset Pricing 506

10.2 Money Demand Models, Deficits, Seigniorage, and Inflation 512

- 10.3 Aggregate Supply and Demand, Wage Indexation, and Supply Shocks 518
- 10.4 The Dynamics of Demand: The IS-LM and Mundell-Fleming Models 529
- 10.5 Dynamics of Aggregate Supply 542
- Problems 555
- Notes 558
- References 562

11 Monetary and Fiscal Policy Issues 566

- 11.1 The Goals of Economic Policy 567
- 11.2 Monetary Policy 569
- 11.3 Fiscal Policy 583
- 11.4 Dynamic Inconsistency 592
- 11.5 Conclusions 614
- Problems 614
- Notes 617
- References 624

Name Index 631

Subject Index 637