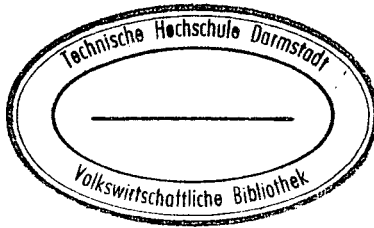


# MACROECONOMIC THEORY AND STABILISATION POLICY

ANDREW STEVENSON, VITANTONIO MUSCATELLI  
*University of Glasgow*

MARY GREGORY  
*University of Oxford*



Philip Allan/Barnes & Noble Books

# CONTENTS

Preface ix

- 1 Introduction: The Theory of Aggregate Demand 1**
  - 1.1 The IS–LM Model 2
  - 1.2 Aggregate Demand and the Price Level 12
  - 1.3 The IS–LM Model and the Stock of Wealth 16
  - 1.4 Aggregate Demand: Further Considerations 22
  - 1.5 Conclusion 25
  
- 2 Classical Versus Keynesian Economics: The Debate on Underemployment Equilibrium 26**
  - 2.1 Classical Aggregate Supply and the Neoclassical Synthesis 28
  - 2.2 Keynesian Non-Market-Clearing Models 44
  
- 3 Aggregate Supply: Monetarism and New Classical Macroeconomics 57**
  - 3.1 The Phillips Curve and Stabilisation Policy 57
  - 3.2 Rational Expectations and the New Classical Macroeconomics 73
  - 3.3 Empirical Evidence on the New Classical Models 89Appendix: Solving Dynamic Rational Expectations Models 97
  
- 4 Aggregate Supply and Stabilisation Policies: The Keynesian Perspective 101**
  - 4.1 Policy Non-Neutrality Under Rational Expectations 102
  - 4.2 Implicit Contracts and Stabilisation Policies 111
  - 4.3 ‘Bottlenecks’ and the Rehabilitation of the Phillips Curve 126
  - 4.4 Conclusion 136
  
- 5 Money, Financial Markets, and Aggregate Demand 138**
  - 5.1 Monetary Policy in the Simple IS–LM Model 138
  - 5.2 Money Supply Determination 141
  - 5.3 Portfolio Analysis and the Monetary Transmission Mechanism 149
  - 5.4 The Demand for Money: Empirical Evidence 173

<b>6</b>	<b>Fiscal Policy and Aggregate Demand</b>	<b>186</b>
6.1	Fiscal Policy in the Simple IS–LM Model	186
6.2	Money-Financed Fiscal Policy	191
6.3	Bond-Financed Fiscal Policy	194
6.4	Fiscal Policy and Expectations	201
6.5	Conclusion	210
<b>7</b>	<b>Macroeconomic Policy and the Balance of Payments</b>	<b>211</b>
7.1	Balance of Payments Policy in a Keynesian Framework	212
7.2	The Monetary Approach	234
7.3	Wealth Effects and Portfolio Models of the Balance of Payments	245
7.4	Conclusion	256
<b>8</b>	<b>Macroeconomic Policy and the Exchange Rate</b>	<b>257</b>
8.1	The Fleming–Mundell Model	258
8.2	The Monetary Model of Exchange Rates	265
8.3	The Monetary Model, Rational Expectations, and Imperfect Price Flexibility	274
8.4	Wealth Effects, the Current Account, and Exchange Rates	281
8.5	Some Empirical Issues	290
8.6	Conclusion	295
<b>9</b>	<b>The Design of Macroeconomic Policy</b>	<b>297</b>
9.1	Instruments, Targets, and Intermediate Objectives	297
9.2	Feasible and Optimal Policy in a Dynamic Setting	303
9.3	Rational Expectations and Other Problems in Optimal Policy Formulation	323
9.4	Conclusion	332
<b>10</b>	<b>International Interdependence and Policy Coordination</b>	<b>334</b>
10.1	The International Transmission of Economic Policies	334
10.2	An Introduction to Static Game Theory	350
10.3	The Application of Static Games to Fixed and Flexible Exchange Rate Models	359
10.4	Conclusion	373

**Bibliography** 374

**Author Index** 397

**Subject Index** 401