MACROECONOMICS

Models, Debates and Developments

Brian Hillier



Contents

Pref	ace	ix
Intro	oduction	1
PAR	RT I Keynes versus the Classics: Will Money-Wage Cuts Remove Unemployment?	7
1	The Classical Model	9
	1.1 A Geometric Version of the Classical Model	9
	1.2 The Classical Model and Unemployment	20
	Appendix 1.1 An Algebraic Version of the Classical	
	Model	27
2	Keynes's General Theory	31
	2.1 Keynes's Rejection of the Classical Model	31
	2.2 Keynesian Models of Income Determination	36
	2.3 Keynes, Keynesians and Monetarists	53
	Appendix 2.1 A Diagrammatic Derivation of the IS	
	Curve	58
	Appendix 2.2 A Diagrammatic Derivation of the LM	
	Curve	60
PAF	TII Was Keynes's General Theory Simply a Special Case of the Classical Model?	67
3	Special Cases of the IS-LM Model and the Neoclassical	
	Synthesis	69
	3.1 The Liquidity Trap	70
	3.2 The Aggregate Demand Curve	72
	3.3 The Neoclassical Synthesis	76
	Appendix 3.1 The Slope of the <i>LM</i> Curve and Fiscal	
	and Monetary Policy	80
	Appendix 3.2 The Slope of the <i>IS</i> Curve and Fiscal and	
	Monetary Policy	86

	~	
V1	Contents	
v ı	COMBERNA	

`

4	The Re-interpretation of Keynes		
	4.1	Clower's Dual Decision Hypothesis	91
	4.2	Alternative Interpretations	94
PAF	T III	Does Fiscal Policy Really Matter? The Crowding-out Debate	101
5	Weals 5.1 5.2	th Effects and the Government Budget Constraint Wealth Effects The Government Budget Constraint	101 103 104 111
	3.2	The Government Budget Constraint	111
PAF	T IV	Inflation and Unemployment: Is There a Trade-off?	125
6	Infla	tion and Unemployment	127
	6.1	Inflation and Unemployment in the AS-AD model	127
	6.2	The Phillips Curve	133
	6.3	The Role of Expectations and the Natural Rate Hypothesis	136
PAR	at V ,	Does Macroeconomic Policy Really Matter? The New Classical Macroeconomics and the Activist-Non-activist Debate	147
7	The N	New Classical Macroeconomics: An Introduction New Classical Macroeconomics: A Diagrammatic	149
	, . ı	Treatment	151
	7.2	Business Cycles and the New Classical Model	158
	7.3	New Classical Macroeconomics: An Algebraic Treatment	160
8	The l	New Classical Macroeconomics: Some Responses	163
	8.1	The Government Budget Constraint in the New Classical Model	163
	8.2	Real Effects of Anticipated Fiscal and Monetary	103
	8.3	Policies and New Classical Models Attacks on the Foundations of the New Classical	165
		Macroeconomics	167
	8.4	Conclusions	172

٠,

PART VI		The Open Economy: Is it Possible to Set Fiscal and Monetary Policies Independently from an Exchange Rate Target?	177	
9	The C	Open Economy I: Fixed Exchange Rates and Prices	179	
	9.1	The Balance of Payments	180	
	9.2	Alternative Exchange Rate Systems	181	
	9.3	The Simple Keynesian Multiplier Model of a Small	101	
		Open Economy	184	
	9.4	The IS-LM Model of a Small Open Economy	188	
	9.5	The Small Open-economy IS-LM Model and the		
		Government Budget Constraint	194	
10	The C	Open Economy II: Flexible Exchange Rates and		
	Varia	ble Prices	199	
	10.1	The Capital Account and the Asset Market	199	
	10.2	The Domestic Goods Market	202	
	10.3	The Complete Model	203	
Bibl	Bibliography			
Inde	ndex			