

**Economics S-1936: Redeeming Keynes  
Syllabus**

This course explores the birth, death, and resurrection of *The General Theory of Employment, Interest and Money* from the Great Depression (1929-1939) to the Great Recession (2008-?). A major goal is to lay out a coherent argument that, for all its theoretical innovation, *The General Theory* did not deliver: the argument why a market system, even an idealized system with all of the warts removed, may fail to provide jobs for willing workers. In the process we will examine the orthodoxy that Keynes attacked and that resurfaced before the ink was dry on *The General Theory*; the key concepts underlying the models implicit in *The General Theory*; and the attempts of the "Keynesian" mainstream to make peace with both Keynes and orthodoxy. We will also explore the applicability of *The General Theory* to the long run.

Prerequisites: An introductory economics course at the level of Economics 10; more economics, for example, intermediate micro and macro, will prove helpful. A year of college calculus will allow students to understand mathematical notation and concepts (derivatives, maximization, etc) even though mathematics will be used very sparingly in lectures. Fair warning based on past experience: this will likely prove a very difficult course even if one comes to it with considerably more economics than the minimum background.

**Required reading in boldface**

\* indicates supplementary reading

**One: What is "Mainstream Economics"? What was Keynes's Critique? (June 25)**

Then and Now: The Great Depression (1929-1941) and the Great Recession (2008-?)

1. **R Evans, *The Coming of the Third Reich*, pp 232-246.** Optional: \*pp 247-265.
2. **D Kennedy, *Freedom From Fear*, ch 2, 6, pp 43-69, 160-189.** Optional: \*ch 7-8, pp 190-248.
3. \*L Thomas, "[Middlesbrough, a Faded Industrial Town, Is Feeling the Budget Cuts in Britain](#)," *New York Times*, March 11, 2011
4. \*M Martens, "[Generation der gepackten Koffer](#)," *Frankfurter Allgemeine Zeitung*, June 28, 2011.
5. **F Ehlers, "[Italy's Lost Generation: Crisis Forces Young Italians to Move Abroad](#)," *Der Spiegel Online*, August 6, 2012.**

Overviews of Keynes

1. **R Backhouse and B Bateman. "Keynes, John Maynard (new perspectives)." *The New Palgrave Dictionary of Economics. Second Edition*. Eds. Steven N. Durlauf and Lawrence E. Blume. 06 May 2011**
2. ***Time*, "The Economy: We Are All Keynesians Now," December 31, 1965.**
3. \*R Skidelsky, *Keynes: The Return of the Master*, ch 3, pp 55-74.
4. \*J Schumpeter, *Ten Great Economists: From Marx to Keynes*, ch 10, pp 260-291.3.
5. \* P Samuelson, "[Lord Keynes and the General Theory](#)," *Econometrica*, 14:187-200, 1946.
6. \*Veritas Foundation, *Keynes at Harvard: Economic Deception as a Political Credo*, ch 4-6, pp 41-85.

Is This Resurrection Necessary?

7. \*D Laidler, *Fabricating the Keynesian Revolution*, Chapter 1, pp 1-24
8. **S Marglin, *Raising Keynes, A 21st Century General Theory*, Prologue and Ch 1.**

## What Were They Thinking? Economics Before *The General Theory*

Is the Economy Self-Regulating? Why Doesn't the Economy Get to Full Employment? What Was Keynes Struggling Against?

1. \*A C Pigou, *The Theory of Unemployment*, Part 5, ch 3, pp 252-256.
2. \*J Viner, *Balanced Deflation, Inflation, or More Depression*, Minneapolis: University of Minnesota Press, 1933
3. \*J Viner, "Inflation as a Possible Remedy for the Depression," *Proceedings of the Institute of Public Affairs*, University of Georgia, 7th Annual Meeting , May 8-16, 1933, Athens GA, 1933
4. **S Marglin, *Raising Keynes*, ch 2.**

Can Government Stimulate the Economy?

1. \*R Hawtrey, "[Public Expenditures and the Demand for Labour](#)," *Economica*, 13:38-48, 1925.
2. \*G Peden, "[The 'Treasury View' on Public Works and Employment in the Interwar Period](#)," *Economic History Review*, 37:167-181, 1984.

How is The Price Level Determined?

1. \*D Hume, "Of Money," in *Political Discourses*, pp 27-39. <http://ia600407.us.archive.org/31/items/humespolitical00humeuoft/humespolitical00humeuoft.pdf>
2. \*I Fisher, "[Recent Changes in Price Levels and Their Causes](#)," *American Economic Association* 1:37-45, 1911.
3. \*J L Laughlin, "A Theory of Prices," *Publications of the American Economic Association*, 3rd Series, 6:66-83, 1905.
4. \*J L Laughlin, "[Causes of the Changes in Prices Since 1896](#)," *American Economic Review*, 1:26-36, 1911
5. \*"[Money and Prices: Discussion](#)," *The American Economic Review* 1:51-70, 1911.

Perspectives on the Macroeconomy: Monetarists, New Classicals and New (and old) Keynesians

1. \*M Friedman, "The Quantity Theory of Money," [The New Palgrave Dictionary of Economics](#), v 4, pp 3-20
2. \*M Friedman, "[The Role of Monetary Policy](#)," *American Economic Review* 58:1-17, 1968
3. \*H Johnson, "[The Keynesian Revolution and the Monetarist Counter Revolution](#)," *American Economic Review*, 61:91-106 (1-14?), 1971.
4. \*J B De Long, "[The Triumph of Monetarism?](#)," *Journal of Economic Perspectives*, 14:83-94, 2000.
5. \*R Lucas, "[Methods and Problems in Business Cycle Theory](#)," *Journal of Money, Credit and Banking*, 12: 696-715, 1980
6. \*D Romer, "[The New Keynesian Synthesis](#)," *The Journal of Economic Perspectives*, 7: 5-22, 1993.
7. \*R Solow, "[Toward a Macroeconomics of the Medium Run](#)," *Journal of Economic Perspectives* 14:151-158, 2000.
8. \*V Chari and P Kehoe, "[Modern Macroeconomics in Practice: How Theory is Shaping Policy](#)," *Journal of Economic Perspectives*, 20:3-28, 2006.
9. \*R Solow, "[The State of Macroeconomics](#)," *Journal of Economic Perspectives*, 22:243-249, 2008.

**Two: The Ambiguous Argument of *The General Theory*** (June 27)

1. **J M Keynes, *The General Theory of Employment, Interest and Money*, ch 1-3, ch 18.**
2. \*D Laidler, *Fabricating the Keynesian Revolution*, ch 10, pp 247-276.

3. \*D Laidler, "[Keynesian Revolution](#)," in *The New Palgrave Dictionary of Economics*. Second Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2008. The New Palgrave Dictionary of Economics Online. Palgrave Macmillan. 06 May 2011
4. \*A Lerner, *The Economics of Control*, ch 22, pp 271-281.
5. **S Marglin, *Raising Keynes*, [ch 3](#)**

#### Counter-critique

1. \*J Hicks, "[Mr. Keynes and the Classics: A Suggested Interpretation](#)," *Econometrica*, 5:147-159, 1937.
2. **Skim F Modigliani, "[Liquidity Preference and the Theory of Interest and Money](#)," *Econometrica*, 12:45-88, 1944.**
3. \*A C Pigou, "[The Classical Stationary State](#)," *Economic Journal*, 53: 343-351, 1943.
4. **A Lerner, *The Economics of Control*, ch 22, pp 281-284; ch 23, pp 285-301.**
5. **S Marglin, *Raising Keynes*, [ch 4](#).**

What is Money? Is it Fixed Outside the System (Exogenous), or Created Within (Endogenous)?

1. \*M Friedman, "The Quantity Theory of Money," *The New Palgrave Dictionary of Economics*, v 4, pp 3-10.
2. **A M Innes, "What is Money?" *The Banking Law Journal*, 30:377-408, January-December, 1913.**
3. \*J M Keynes, "Review of "What is Money?" *Economic Journal*, 24:419-421, 1914.
4. **M Lavoie, *Post-Keynesian Economics: New Foundations*, [ch 4](#).**

#### Three: *The General Theory Without Rigid Prices and Wages* (July 2 – July 9)

The Price Mechanism: Gospels According to Marshall and Walras

1. \*A Marshall, *Principles of Economics* 8th edition, Book 5, ch 3, pp 337-350.
2. \*L Walras, *Elements of Pure Economics*, Definitive Edition, trans. W Jaffe, Lessons 5-6, pp 83-106.
3. **K Arrow, "[Toward a Theory of Price Adjustment](#)," in *The Allocation of Economic Resources: Essays in Honor of Bernard Haley*, ed. Moses Abramovitz, pp 41-51.**
4. **S Marglin, *Raising Keynes*, [ch 5](#).**

A Model for Chapter 19 of *The General Theory*

1. **J M Keynes, *The General Theory*, ch 19.**
2. **I Fisher, "[The Debt-Deflation Theory of Great Depressions](#)," *Review of the International Statistical Institute*, 1:48-65, 1934.**
3. **S Marglin, *Raising Keynes*, [ch 6](#) and [ch 7](#).**
4. \*J Tobin, "[Price Flexibility and Output Stability](#)," *Journal of Economic Perspectives*, 7:45-65, 1993.
5. \*J Hicks, *The Crisis in Keynesian Economics*, ch1, pp 22-30 (on flexprice vs fixprice markets).
6. \*M Kalecki, "[Professor Pigou on 'The Classical Stationary State,' A Comment](#)," *Economic Journal*, 54:131-132, 1944.
7. \*D Patinkin, "[Price Flexibility and Full Employment](#)," *American Economic Review*, 38:543-564, 1948.

A Dose of Reality: Facts and Figures on the Great Depression

1. **S Marglin, *Raising Keynes*, ch 8.**

An Alternative Interpretation

1. **M Friedman and A Schwartz, "Money and Business Cycles," *The Review of Economics and Statistics*, Vol. 45, No. 1, Part 2, Supplement (Feb., 1963), pp. 59-63.**
2. **M Friedman and A Schwartz, A Monetary History of the United States, pp 691-695.**

**Midterm Exam: July 11 (through Unit 3)**

**Four: Basic Elements of *The General Theory* (July 16 – July 23)**

The Propensity to Consume (July 16)

1. **J M Keynes, *The General Theory*, ch 8-9.**
2. \* P Samuelson, "Full Employment After the War," in S Harris (ed) *Postwar Economic Problems*, pp 27-54.
3. \*R Kosobud, "Relative Income Hypothesis," *New Palgrave*, v 4, pp 134-136.
4. \* M Darby, "Consumption Function," *New Palgrave*, v 1, pp 614-616.
5. \*M Browning and T Crossley, "The Life-Cycle Model of Consumption and Saving," *Journal of Economic Perspectives*, 15:3-22, 2001.
6. **S Marglin, *Raising Keynes*, ch 9.**

Investment Demand (July 16)

1. **J M Keynes, *The General Theory*, ch 11-12.**
2. \*R Koppl, "Animal Spirits," *Journal of Economic Perspectives*, 5:203-210, 1991.
3. \*H D Henderson, "The Significance of the Rate of Interest," *Oxford Economic Papers* 1:1-13, 1938.
4. \*G Smith, "Tobin's q." *The New Palgrave Dictionary of Economics*. Second Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2008. The New Palgrave Dictionary of Economics Online. Palgrave Macmillan  
<[http://www.dictionarofeconomics.com/article?id=pde2008\\_T000070](http://www.dictionarofeconomics.com/article?id=pde2008_T000070)>  
doi:10.1057/9780230226203.1714.
5. **S Marglin, *Raising Keynes*, ch 10.**

Interest Rates (July 18 – July 23),

Liquidity Preference

1. **J M Keynes, *The General Theory*, ch 13-14.**
2. \*J Hicks, *Value and Capital*, ch 11-13.
3. \*J Tobin, "Liquidity Preference as Behavior Towards Risk," *Review of Economic Studies*, 25:65-86; if you are math challenged or deprived, skip sections 3.3-3.6, pp 74-85; 1958.
4. \*J Campbell, "Some Lessons from the Yield Curve," *Journal of Economic Perspectives*, 9:129-152, 1995.
5. **S Marglin, *Raising Keynes*, ch 11-12**

One More Time: What is Money? (July 23)

1. **S Marglin, *Raising Keynes*, ch 13**

**Five: What Policies Emerge From *The General Theory*?** (July 23 – July 25)

Monetary Policy and Its Limits

1. \*M Bordo, "A History of Monetary Policy," *The New Palgrave Dictionary of Economics*. Second Edition. Eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan, 2008. [The New Palgrave Dictionary of Economics Online](http://www.dictionarofeconomics.com/article?id=pde2008_H000180). Palgrave Macmillan.  
<[http://www.dictionarofeconomics.com/article?id=pde2008\\_H000180](http://www.dictionarofeconomics.com/article?id=pde2008_H000180)>  
doi:10.1057/9780230226203.1124D
2. \*S Williamson, "Current Federal Reserve Policy Under the Lens of Economic History: A Review Essay," Working Paper 2015-015A <http://research.stlouisfed.org/wp/2015/2015-015.pdf>
3. \*B Friedman, "[The Future of Monetary Policy: The Central Bank as an Army With Only a Signal Corps?](#)" *International Finance* 2:321-338, 1999.
4. \*B Friedman and K Kuttner, "Implementation of Monetary Policy: How Do Central Banks Set Interest Rates?," in *Handbook of Monetary Economics*, Volume 3B, ch 24, pp 1346-1399

Fiscal Policy and the National Debt

"Functional Finance" and its Limits

1. **A Lerner, *The Economics of Control*, ch 24, pp 302-322.**
2. **S Marglin, *Raising Keynes*, ch 14.**

Does Stimulus Work?

1. **J M Keynes, *The General Theory*, ch 10.**
2. \*R Barro, "Voodoo Multipliers," *Economists' Voice* 6(2), February 2009.
3. \*R Gordon and R Krenn, "The End of the Great Depression 1939-41: Policy Contributions and Fiscal Multipliers," NBER Working Paper 16380, <http://www.nber.org/papers/w16380>, pp1-4.
4. \*S Fazzari, "Does the Effectiveness of Fiscal Stimulus Depend on Economic Context?" Institute for New Economic Thinking, INET Research Note 1, Sections 1 and 2.  
<http://ineteconomics.org/sites/inet.civactions.net/files/Note-1-Fazzari.pdf>
5. **J Taylor, "[An Empirical Analysis of the Revival of Fiscal Activism in the 2000s](#)," *Journal of Economic Literature* 49(3): Sept. 2011, 686-702.**
6. **Council Of Economic Advisers, "The Economic Impact of the American Recovery and Reinvestment Act Five Years Later," February 2014, Executive Summary, pp i-v.**
7. **S Marglin, *Raising Keynes*, ch 15-16.**

Beyond Full Employment: Functional Finance as a Tool for Achieving Balance Between the Public and Private Sectors

1. **S Marglin, *Raising Keynes*, ch 17, pp 1-12.**

What are the Problems with Continuing Deficits?

1. **B Friedman, *Day of Reckoning*, ch 1, pp 3-27.**
2. **National Commission on Fiscal Responsibility and Reform, *The Moment of Truth*, pp 10-13.**
3. **US House of Representatives, Committee on the Budget, [Path to Prosperity, "Deficits and Debt,"](#) pp 18-23.**

4. **C Reinhart and K Rogoff, "Growth in a Time of Debt," NBER Working Paper 15639, January 2010.**
5. \*S Fazzari, "Does the Effectiveness of Fiscal Stimulus Depend on Economic Context?" Institute for New Economic Thinking, INET Research Note 1, Section 3.  
<http://ineteconomics.org/sites/inet.civicaactions.net/files/Note-1-Fazzari.pdf>
6. **S Marglin, *Raising Keynes*, ch 17, pp 12-34.**

**Six: The Crisis of 2008 and Beyond (July 30)**

1. \*Financial Crisis Inquiry Commission, [\*Financial Crisis Inquiry Report\*](#), (majority's conclusions) pp xv-xxviii; (minority dissent) 413-419; (separate minority dissent) 443-447.
2. \*R Shiller, *The Subprime Solution*, ch 2-3.
3. \*R Rajan, *Fault Lines*, ch 1.
4. \*L Kendall, "[Securitization: A New Era in American Finance](#)," in L Kendall and M Fishman, *A Primer on Securitization*, ch 1, pp 1-16.
5. \*E Benmelech and J Dlugosz, "[The Alchemy of CDO Credit Ratings](#)," *Journal of Monetary Economics*, 56:617-634, 2009.
6. \*M Lewis, *The Big Short*, ch 6.
7. **B Eichengreen, *Hall of Mirrors*, ch 22-26 and Conclusion.**

**Final Exam: August 1**