

**CREi**

**Barcelona Macroeconomics Summer School  
BMSS2008**

**Social learning and macroeconomic policy design**

**Ramon Marimon**

**Dates:** June 30 – July 4

**Time:** 11:30 – 13:30 h

Expectations play a central role in how agents react to policies and, therefore, in how economic policies and institutions must be designed. Up until recently, postulating rational expectations provided a convenient way to anchor expectations, to characterize social equilibrium outcomes, and to solve macroeconomic policy design problems. Latterly, however, a broader, but nevertheless systematic, modeling of expectations and equilibrium (for example, self-confirming equilibrium and different forms of adaptive and social learning) has helped to explain macroeconomic phenomena not properly accounted for by dynamic rational expectations equilibrium models. This broader, and more historically rooted, view is also shedding new light on how to approach macroeconomic policy design problems.

This introductory self-contained course starts with an introduction to ‘the role of expectations in macroeconomic policy design’ and the new conceptual framework. It then applies such a framework to reassess different policy and institutional design problems such as: inflation, employment and redistribution, economic recessions, and innovation and growth.

**Selected Topics:**

- Beyond incentives: the role of expectations in macroeconomic policy design. The induction problem, rational expectations, and self confirming-equilibrium.

\*Sargent, Thomas J. 2007. “Evolution and Intelligent Design,” 2008 American Economic Association presidential address. New York University.

Fudenberg, Drew and David K. Levine. 2007. “Self-Confirming and the Lucas Critique.” Harvard University and Washington University.

Lucas, Robert E., Jr. 1972a. Econometric Testing of the Natural Rate Hypothesis. In *The Econometrics of Price Determination: Conference*,

October 30-31, edited by Otto Eckstein. Washington, D.C.: Board of Governors, Federal Reserve System.

Fudenberg, Drew and David K. Levine. 2006. "Superstition and Rational Learning," *American Economic Review* 96: 630-651.

Marimon, Ramon. 1997. "Learning from Learning in Economics," in *Advances in Economics and Econometrics: Theory and Applications*, edited by David Kreps and Kenneth Wallis. Cambridge University Press.

- Controlling inflation with limited knowledge

\*Sargent, Thomas J. 1999. *The Conquest of American Inflation*. Princeton University Press.

Sargent, Thomas, Noah Williams, and Tao Zha. 2006a. "The Conquest of South American Inflation". Nber working papers, National Bureau of Economic Research, Inc.

Cogley, Timothy and Thomas J. Sargent. 2005. "The Conquest of U.S. Inflation: Learning and Robustness to Model Uncertainty. *Review of Economic Dynamics* 8:528-563.

Primiceri, Giorgio E. 2006. "Why Inflation Rose and Fell: Policymakers' Beliefs and US Postwar Stabilization Policy," *The Quarterly Journal of Economics*, 121 (3), 867 – 901.

- Social learning, employment and redistribution

\*Piketty, Thomas. 1995. "Social Mobility and Redistributive Politics," *The Quarterly Journal of Economics*, 110 (3), 551 – 584.

Alesina, Alberto and George-Marios Angeletos. 2005. "Fairness and Redistribution." *American Economic Review* 95 (4) 960-980.

Aghion, Philippe, Yann Algan, and Pierre Cahuc. 2008. "Can Policy Influence Culture? Minimum Wage and the Quality of Labor Relations". Paris School of Economics

Piketty Thomas : « Self-fulfilling beliefs about social status », *Journal of public economics*, vol. 70, no 1, 1998, p. 115-132.

- Learning macroeconomic policies from history

\*Buera, Francisco J., Alexander Monge-Naranjo, and Giorgio E. Primiceri. 2007. "Learning the Wealth of Nations," Northwestern University

Kreps, David M. 1998. "Anticipated Utility and Dynamic Choice". In *Frontiers of Research in Economic Theory: The Nancy L. Schwartz Memorial Lectures, 1983-1997*. Cambridge University Press.

- Innovation diffusion and social learning

\*Young, H. Peyton. 2007. "Innovation Diffusion in Heterogeneous Populations: Contagion, Social Influence and Social Learning," Center on Social and Economic Dynamics at Brookings.

Besley, Timothy and Anne Case. 1994. "Diffusion as a Learning Process: Evidence from HYV Cotton." Woodrow Wilson School, Research Program in Development Studies Discussion Paper #174.

Conley, Timothy G. and Christopher R. Udry. 2003. "Learning About a New Technology: Pineapple in Ghana," Yale University.

Young, H. Peyton. 2004. *Strategic Learning and its Limits*, Oxford and New York: Oxford University Press. The Arne Ryde Memorial Lectures Series.

Munshi, K. 2004: "Social learning in a heterogeneous population: technology diffusion in the Indian green revolution," *Journal of Development Economics* 73, 185-213.

\* Indicates main reading for the topic. One topic will be approximately covered in one day, although some aspects of the first topic will be further developed within the subsequent topics.