Course Objectives:

Macroeconomic events have been critical to the evolution and fortunes of the agricultural sector - in the US and elsewhere. Recent volatility in the dollar exchange rate has coincided with large swings in agricultural commodity prices, driven by global recession and differing monetary policy approaches across countries. The Asian Financial Crisis - fundamentally a macroeconomic event - had according to some analysis profoundly changed trends in international commodity markets. Several earlier watershed events in international agricultural markets -- the 1973-74 World Food Crisis, the 1981-2 LDC Debt Crisis and Russian Grain Embargo, and the 1986 G7 Exchange Rate Accord – coincided with major shifts in macroeconomic policies and trends. The IATRC Grain Embargo study, for example, argued that macroeconomic events were more important than the several agricultural sector explanations of the reversals in trade and farm income trends in 1981. Schuh and Thompson have argued for decades that monetary policy and exchange rates are more important than agricultural policy in determining farm income and its variability. Misunderstanding of the relationship between macroeconomics and the agricultural sector has, according to both Paarlberg and Schultz, been the force behind the genesis of US farm policy, with its emphasis on supply control, during the great depression. The fall, then rise and then fall in the value of the dollar recently, and the extent of trade and government budget deficits, hold significant implications for the future of farm income.

Despite widespread recognition that the macroeconomic environment matters, agricultural economists have had limited success in incorporating these issues and ideas into their microeconomic-oriented models and in documenting quantitatively the linkages between macroeconomic and microeconomic phenomena. This mirrors the difficulties economists generally have in explaining exchange rate movements, interest rate differentials or income growth, likely the most important linkages between agriculture and the macro economy.

The objectives of this course are to expose students to the nature and importance of linkages between agriculture and the macro-economy, and examine theories and methods that might allow us to establish or quantify these linkages in agricultural models. We will explore extensions of
macroeconomic accounting and theory into an open economy, examine attempts by agricultural economists to estimate macroeconomic linkages and build them into commodity models, and consider consequences of implicit and explicit macroeconomic assumptions in much of our work. The changing role of agriculture in an economy under structural transformation will be key to understanding these linkages and how they evolve, as shown in several new developments seeking to explain both recent events and policy history in macro-theoretical frameworks consistent with observed empirical regularities.

Readings:
We will use *Macroeconomics, 6th edition* by Andrew Abel, Ben Bernanke and Dean Croushore (Pearson Addison Wesley, Boston, 2008) as a basic reference (The 5th or earlier editions are sufficient for this course). This will be supplemented by numerous additional readings from books, journals and the press, available from the Reserve Desk of the Krannert Library, from my secretary, and via links on the class web site. We will cover during class only a portion of the readings included on this syllabus - one intention here is to include at least introductory readings on the key topics in this area for your future reference. A “*” indicates essential readings. Topics to be emphasized in class and assigned readings will be indicated as the course proceeds - we will begin by following the tentative course outline on the class website.

Website:
The course web site may be accessed via WebCT (Blackboard Vista) by logging in using your career account at:

http://www.itap.purdue.edu/tlt/blackboard/index.cfm

The Syllabus, Course Outline, and access to Readings are on the WebCT Blackboard Vista course website. WebCT is necessary to maintain secure grade information access, as well. Links to lecture notes, homework, supporting spreadsheets, and student presentations are from the course outline. Links to readings and references are from the syllabus.

Course Requirements, Examinations and Grading:
Grades for this course will be determined from performance on:

- **Final examination (25%)**,  
- **one class presentation (15%) and supporting paper (10%)**,  
- **occasional homework problem sets (40%)**,  
- **class participation (10%)**.

The final examination will be scheduled during the **week of December 14-19, 2009** (finals week). It will be 2 hours in duration and will cover material from the entire course -- it is a comprehensive examination. Notes, books and handouts will be permitted for the final examination -- it is open book and open notes. Class presentation topics will be assigned (negotiated) based on student interests and readings on this syllabus. Presentations will review a topic rather than cover a single paper, and a written paper (10 pages) supporting the presentation is required.

Review questions for this course and old exams may be accessed at the course website.
Course Outline and Readings: * -- essential readings

I. Overview: Agriculture’s Role in the Macro economy

*Recent Macro-economy history


*ERS, USDA Briefing Room on Macroeconomics and Agriculture http://www.ers.usda.gov/Briefing/Macroeconomics/
Agricultural Baseline Projections: Macroeconomic Assumptions, 2009-2018
http://www.ers.usda.gov/Briefing/Baseline/macro.htm
International Macroeconomic Data Set
http://www.ers.usda.gov/data/macroeconomics/#BaselineMacroTables
Agricultural Exchange Rate Data Set


Chapter 2 -- Macro Economy by Deboer, Tyner and Taylor
Chapter 3 -- International Trade by Abbott, Hertel, Masters, Paarlberg, Sanders and Tyner
**High Food and Ag Commodity Prices**


**Ag Linkages: Reviews and History**


*Zobbee, Henrik and Philip Paarlberg*, “The Shaky Foundation of Farm Policy in the United States—Flawed Analysis, Flawed Policy,” Purdue Ag Econ Staff Paper 03-01, January 2003


**Globalization and the Macro Environment**


http://www.theatlantic.com/doc/200905/imf-advice*

http://www.choicesmagazine.org/2002-4/2002-4-08.pdf*


*Exchange Rates*  


Alan Heston, Robert Summers and Bettina Aten, Penn World Table Version 6.2, Center for International Comparisons at the University of Pennsylvania (CICUP), September 2006.  
http://pwt.econ.upenn.edu/php_site/pwt_index.php

http://www.worldbank.org/agdistortions

*“China’s Exchange Rate Regime and its Effects on the U.S. Economy,” John B. Taylor Under Secretary of Treasury for International Affairs Testimony before the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology House Committee on Financial Services October 1, 2003  
http://www.ustreasures.gov/press/releases/js774.htm*

http://www.chicagofed.org/publications/economicperspectives/ep_4qtr2005_part1_bown_crowley_mcculloch.pdf*

II. Open Economy Macroeconomics

Accounting

National Income Accounting

Balance of Payments and National Accounts
* Abel, Bernanke and Croushore, “Savings and Investment in the Open Economy,” Macroeconomics, Chapter 5.


Social Accounting Matrices


Analyses Based Largely on Accounting Principles


Macroeconomic Theory

Closed Economy Models: Review
* Paul Krugman, “There’s something about macro” http://web.mit.edu/krugman/www/islm.html


Open Economy Linkages: Purchasing Power Parity, Interest Rate Parity Models: Algebraic, Aggregate Supply-Aggregate Demand, IS-LM

**Policy in an Open Economy**


**Policy Trilemma in Argentina and Europe – Currency Unions**


**Competing Macroeconomic Models**


III. Evidence on Prices and Market Failures


IV. Growth Theory and Dynamics

Growth Theory and Growth Regressions

* Abel & Bernanke, Macroeconomics, Ch. 6, “Long-run Economic Growth”


**Macroeconomic Dynamics**


**Exchange Rate Determination Models**


V. Macroeconomics and General Equilibrium

**Macroeconomics in CGE structures**


**Closure**


Dominique van der Mensbrugghe, “Modeling the Impact of Trade Liberalization: A Structuralist Perspective?” GTAP 10th Annual Conference, Purdue University, West Lafayette, IN, June 8, 2007.

**Dynamic Closure**


**Incorporating market imperfections and rigidities**


Elana Ianchovichina, Robert McDougall and Thomas Hertel, “China in 2005 Revisited: The Implications of International Capital Mobility,” May 1999

VI. Payment Crises and Structural Adjustment from a Macroeconomic Perspective


VII. Agricultural Applications

*Context: Agriculture’s Role in the Macroeconomy*


*Globalization and the Macro Environment*


*Exchange Rates*


**Monetary Policy and Neutrality**


**Overshooting**

Current Models, Forecasting and Projections


Macroeconomics Syntheses


Growth


Poverty
Thomas Hertel and Jeffrey Reimer, “Predicting the Poverty Impacts of Trade Reform”, J. Int. Trade & Economic Development Vol. 14, No. 4, 377 – 405, December 2005


Winters, L. Alan; McCulloch, Neil; McKay, Andrew, “Trade Liberalization and Poverty: The Evidence So Far” Journal of Economic Literature, XLII (March 2004), pp. 72-115(44)

Evidence on Market Imperfections


Structuralist Macroeconomics


Food Policy in Structuralist Models


-14-
Foreign Exchange Constraints

**CGE Modifications**


Aziz Elbehri and Thomas W. Hertel, “A Comparative Analysis of the EU-Morocco FTA vs. Multilateral Liberalization” GTAP Working Paper No. 31, Global Trade Analysis Project, Purdue University, West Lafayette, IN, February 15, 2004

[https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=1643](https://www.gtap.agecon.purdue.edu/resources/res_display.asp?RecordID=1643)
BOOKS on RESERVE at Krannert Library

338.9 Ag36e 2000

2005 -- 5th edition: 339 Ab34m 2005
Please acquire 6th edition, put 5th on reserve in interim

909.82 M312i 2002

337 St52g 2002

338.10973 M248

338.1 H191 2001 (Volume 2a)

A93.29/2-3:WRS-99-3

339.5091724 T215m

332.042 K939c 1995

337 Ap57i 1998

339 D735o

337 T861i 1997

339 T861m 2000
382.3 Ap58 1997

338.1091724 Ag835 1995

339.0724 T215s

339.091724 St94 1997

AGEC PC

330.015195 So13 1990