

Fiscal Policy, Public Debt and Sovereign Debt

Spring 2020

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Course description

The short course covers selected fiscal policy problems highlighted during the recent financial crisis. We will focus on the fiscal consolidation policies (austerity vs. alternatives) and on fiscal policy effects on economic growth. The course will also discuss methodology of sovereign debt ranking by major ranking agencies.

Prerequisites

Introductory macroeconomics. There is no formal prerequisite in mathematics and statistics, but some readings do involve empirical studies and elementary econometrics would therefore be an advantage.

Course textbook

There is no single required text that covers all of the material. Papers will be posted/distributed during the course. Please, read as much as you can. For the general discussion of fiscal policy, **De Long and Summers (2012)** is excellent! **Reinhart and Rogoff (2010) or (2012)** is a must for the debt discussion, ideally followed by the critique by **Herndon (2014)**. Good additional sources include VOX web site: <http://www.voxeu.org/content/topics/macroeconomic-policy>. Reading general economic journals as The Economist or Financial Times helps as well.

The following papers are recommended and will be used during the course:

Alesina, Ardagna: The Design of Fiscal Adjustments, NBER, September 2012.

Alesina, de Rugy: Austerity – The Relative Effects of tax Increases and Spending Cuts, Mercatus Center, March 2013.

Auerbach: Fiscal Multipliers in recession and Expansion, NBER, January 2012.

Baum, Poplawski, Weber: Fiscal Multipliers and the State of the Economy, IMF, December 2012.

Blanchard Olivier and Daniel Leigh(2013): Growth Forecast Errors and Fiscal Multipliers, Working Paper 2013/1, IMF, January 2013.

Blanchard, Olivier (2019): Public Debt and Low Interest Rates, American Economic Review, Buti, Carnot (2013): The Debate on Fiscal Policy in Europe, ECFIN Economic Brief, March 2013

DeLong Bradford, Lawrence Summers (2012): Fiscal Policy in a Depressed Economy. Brookings Papers on Economic Activity, 2012:233{297, Spring 2012.

Eyraud, Weber: The Challenge of Debt Reduction during Fiscal Consolidation, IMF, March 2013.

Herndon, Thomas; Michael Ash; and Robert Pollin (2013): Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff, PERI Working Paper 322.

Moody's Investors Service: Rating Methodology, Sovereign Bond Ratings. November 27, 2018.

Reinhart, Carmen; and Kenneth Rogoff (2010): Growth in Time of Debt, American Economic Review, May 2010.

Reinhart, Carmen; Vincent Reinhart, and Kenneth Rogoff (2012): Public Debt Overhangs: Advanced Economy Episodes since 1800, Journal of Economic Perspectives, Summer 2012.

Sovereign Debt: A Guide for Economists and Practitioners – edited by S. Ali Abbas (IMF), Alex Pienkowski (IMF) and Kenneth Rogoff (Harvard University). Oxford Press, IMF, 2019. (selected chapters)

Additional readings

European Central Bank (2001): Fiscal Policies and Economic growth, ECB Monthly Bulletin, August 2001, Frankfurt. pp 39-54 ONLY.

J. von Hagen, A.H. Hallet and R. Strauch (2002): Quality and Success of Budgetary Consolidations, (Buti, CH2) also NBER, AVAILABLE ONLINE, 49 pages long update on their 2001 paper.

Tanzi: Impact of large public debt on growth, in: Buti, von Hagen and Mongay (2002)

Bezděk, V.; Dybczak, K. and Krejdl, A. (2003): Czech Fiscal Policy: Introductory Analysis (Part II: Cyclically Adjusted Fiscal Balance – OECD and ESCB Methods); Working Paper No.7, Czech National Bank; <http://www.cnb.cz/en/pdf/wp7-2003.pdf>.

Course requirements and grading rules

Grades will be based on

- i) class participation: 10%,
- ii) written test: 30%,
- iii) final 2000-word paper on a subject related to the course. The paper should be well structured, internally consistent and concise and will add 60% to the grade.

Percentages indicate relative weights to make a final grade