
PROGRAM: Undergraduate Program in Economics – 2nd semester 2022
COURSE: Topics in Fiscal Policy: Theory, evidence and the case of Brazil
INSTRUCTOR: Marco A.F.H. Cavalcanti (cavalcanti.marco@hotmail.com)
WORKLOAD: 30h
PREREQUISITE: Macroeconomics II
OFFICE HOURS: Thursdays, 13h-15h (Zoom).

COURSE PLAN

1. Contents

Course Overview: Fiscal policy from a macroeconomic perspective and the Brazilian fiscal challenge. Basic concepts and indicators for fiscal policy analysis. The Keynesian fiscal multiplier. Fiscal policy from a neoclassical perspective. Interactions between fiscal and monetary policy (I): The "conventional" case. Effects of budget deficits and fiscal consolidation episodes. Long-run effects of fiscal policy. Empirical evidence on the macroeconomic effects of fiscal policy. Interactions between fiscal and monetary policy (II): Fiscal dominance and the Fiscal Theory of the Price Level. Fiscal policy, inflation and the public debt. Public debt dynamics and sustainability analysis. The political economy of fiscal policy, budget rigidity and the deficit bias. Fiscal rules: theory and evidence. The Brazilian fiscal challenge (I): public debt dynamics and fiscal risks. The Brazilian fiscal challenge (II): fiscal rules.

2. Course Objectives

The course will present students with an overview of fiscal policy issues from a macroeconomic perspective, covering both theoretical and empirical results. The course's main objective is to provide students with a basic understanding of the main issues in the current fiscal policy debate, both in Brazil and abroad. The course will also discuss the fiscal challenges currently facing the Brazilian economy.

3. Main goals to be achieved

By the end of the course, we expect students to: (i) understand the basic theoretical mechanisms through which fiscal policy may affect output and prices, both in the short and the long run; (ii) be familiar with the range of plausible empirical estimates of fiscal multipliers for different policy instruments; (iii) understand how the magnitude of fiscal multipliers may depend on specific economic circumstances, such as the stage of the business cycle and the state of public finances; (iv) understand the main interactions between fiscal policy and monetary policy; (v) understand the main drivers of public debt dynamics and the basics of how to assess debt sustainability; (vi) understand the political economy of fiscal policy that leads to the so-called "deficit bias" and how the adoption of fiscal rules may mitigate this problem; (vii) be familiar with the main fiscal challenges currently facing the Brazilian economy.

4. How relevant is the course for understanding the current economic policy debate?

In the last fifteen years, the importance of fiscal policy as a stabilization tool and as a means to promoting growth has gained prominence among economists and policymakers. During this period, monetary policy has seemed incapable of responding satisfactorily to two major global events – first, the 2008-2009 financial crisis; subsequently, the 2020-21 Covid-19 pandemic –, so that it has been necessary for many governments around the world to adopt robust fiscal policy measures in order to mitigate the adverse social and economic impacts arising from these shocks. In order to be able to follow the current economic policy debate, it is therefore essential for students to understand how fiscal policy operates from a macroeconomic perspective, and what the challenges ahead are.

5. Teaching methodology

Lectures will be in-class. Lectures slides will be available before each class. Students will be required to hand in problem sets (both conceptual and quantitative/empirical) to be solved at home, either individually or in groups of up to three. Kahoot games may be used to increase student participation and engagement.

6. Course Schedule

Lecture	Date	Topic
1	Aug-04	Fiscal policy from a macroeconomic perspective and the Brazilian fiscal challenge (Course overview)
2	Aug-11	Basic concepts and indicators for fiscal policy analysis
3	Aug-18	The keynesian fiscal multiplier
4	Aug-25	Fiscal policy from a neoclassical perspective
5	Sep-01	Interactions between fiscal and monetary policy (I): The "conventional" case
6	Sep-08	Effects of budget deficits and fiscal consolidation episodes
7	Sep-15	Long-run effects of fiscal policy
-	Sep-22	<i>(Exam week)</i>
8	Sep-29	Empirical evidence on the macroeconomic effects of fiscal policy
9	Oct-06	Interactions between fiscal and monetary policy (II): Fiscal dominance and the Fiscal Theory of the Price Level
10	Oct-13	Fiscal policy, inflation and the public debt
11	Oct-20	Public debt dynamics and sustainability analysis
12	Oct-27	The political economy of fiscal policy, budget rigidity and the deficit bias
13	Nov-03	Fiscal rules: theory and evidence
14	Nov-10	The Brazilian fiscal challenge (I): public debt dynamics and fiscal risks
15	Nov-17	The Brazilian fiscal challenge (II): fiscal rules
-	Nov-24	<i>(Exam week)</i>

7. Evaluation and grading

Assessment of student learning will be based on: (i) two in-class closed-books exams (corresponding to 70% of the final grade); (ii) conceptual problem sets to be solved individually at home (10% of the final grade); (iii) empirical/quantitative problem sets to be solved at home either individually or in groups of up to three students (20% of the final grade). Grading will be as follows:

$$A1 = E1 * 0,7 + CP1 * 0,1 + EP1 * 0,2$$

where A1 = grade in first half of the course; E1 = grade in exam 1; CP1 = grade in the first set of conceptual problem sets; EP1 = grade in the first set of empirical problem sets. Each grade ranges from 0 to 10.

$$A2 = E2 * 0,7 + CP2 * 0,1 + EP2 * 0,2$$

where A2 = grade in second half of the course; E2 = grade in exam 2; CP2 = grade in the second set of conceptual problem sets; EP2 = grade in the second set of empirical problem sets.

$$FG = (A1+A2)/2$$

where FG = final grade.

If a student's final grade is below the minimum passing grade (6,0), he/she may take an extra exam to substitute for either A1 or A2.

8. Required readings

- Lectures slides.
- Chapters/sections from [*lectures slides will list the required chapters/sections for each class*]:
 - Abbas et al. (2020). **Sovereign Debt: A Guide for Economists and Practitioners**, Oxford Univ. Press.
 - Abel, A.; Bernanke, B. and Croushore, D. (2017). **Macroeconomics**. Ninth edition, Pearson.
 - Alesina, A. et al. (2019). Effects of Austerity: Expenditure- and Tax-based Approaches. **Journal of Economic Perspectives**, 33 (2).
 - Alesina, A.; Ardagna, S. Tales of fiscal adjustment. **Economic Policy**, n. 13, v. 27, p. 498-545, 1998.
 - Blanchard, O. (2021). **Fiscal Policy Under Low Interest Rates**. Book draft.
 - Blanco, F. et al. (2020). **Fiscal Rules and Economic Size in Latin America and the Caribbean**. Latin American Development Forum. Washington, DC: World Bank.
 - Burnside, C. (2005). **Fiscal sustainability in theory and practice: a handbook**. The World Bank.
 - Chinn, M. (2013). Fiscal multipliers. **The New Palgrave Dictionary of Economics**.
 - Cochrane, J. H. (2021). **The Fiscal Theory of the Price Level**. Book draft.
 - Coenen, G. et al. (2012). Effects of Fiscal Stimulus in Structural Models. **American Economic Journal: Macroeconomics**, 4(1).
 - Eyraud, L. et al. (2018). Second-Generation Fiscal Rules: Balancing Simplicity, Flexibility, and Enforceability. **IMF Staff Discussion Notes SDN/18/04**.
 - Eyraud, L. et al. (2018b). How to select fiscal rules: a primer. **IMF Fiscal Affairs Department (FAD) How-To Notes**.
 - Gale, W. e P. Orszag (2004). Budget Deficits, National Saving, and Interest Rates. **Brookings Papers on Economic Activity**, 2004, 2, pp. 101-210.

Herrera, S. e E. Olaberria (2020). **Budget Rigidity in Latin America and the Caribbean: Causes, Consequences, and Policy Implications**. World Bank Group.

IMF (2008). Fiscal Policy as a Countercyclical Tool. **World Economic Outlook**, Chapter 5, October.

Izquierdo, A. et al. (2018). **Better Spending for Better Lives: How Latin America and the Caribbean Can Do More with Less**. Inter-American Development Bank.

Lee, V. and L. Sheiner (2019). What are automatic stabilizers? **Brookings Series: The Hutchins Center Explains**.

Leeper, E. (2010). Monetary science, fiscal alchemy. **NBER Working Paper** 16510.

Leeper, E. (2016). Why central banks should care about fiscal rules. **Sveriges Riksbank Economic Review**, 2016:3.

Medas et al. (2020). Strengthening Fiscal Responsibility at the Subnational Level. **IMF Technical Report**.

Ramey, V. (2011). Can Government Purchases Stimulate the Economy? **Journal of Economic Literature**, 49 (3).

Ramey, V. (2019). Ten Years After the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research? **Journal of Economic Perspectives**, 33 (2).

Reis, R. (2022). **The Fiscal Revenues From Issuing Public Debt**. Unpublished working paper.

Reis, R. (2022). **How Was the United States Government Able to Borrow So Much During the Pandemic?** Unpublished working paper.

Yared, P. (2019). Rising Government Debt: Causes and Solutions for a Decades-Old Trend. **Journal of Economic Perspectives**, 33 (2).

9. Additional readings

For each class, additional references will be listed in the corresponding lectures slides.

10. Professor Short CV

- *Education:*
 - Doctor in Economics - Pontifícia Universidade Católica do Rio de Janeiro (PUC-Rio).
- *Currently:*
 - Director of Macroeconomic Studies at the Institute of Applied Economic Research (Instituto de Pesquisa Econômica Aplicada - IPEA).
- *Previously:*
 - Undersecretary of Fiscal Policy at the Economic Policy Secretariat/Ministry of the Economy (Secretaria de Política Econômica/Ministério da Economia)
 - Editor of Pesquisa e Planejamento Econômico.
- *Main areas of interest:*
 - Fiscal Policy, Monetary Policy, Macroeconomic Models, Time Series Econometrics.

11. Link to CV

<http://lattes.cnpq.br/4761475632764477>