In part C of section IV of the course, we look more closely at the details of fiscal policy. First, we look at the instruments and final goals of monetary policy. Second, we address the problems associated with a monetary policy response. Third, we investigate the rules versus discretion debate.

The required readings in this section are chapters 15 of Mankiw, “Shilling for the Anti-Tax Cut Crowd” by Brian Nottage, “Economic Scene: Tax Cut Plans Are Clever Politics but Unwise Fiscal Policy” by Jeff Madrick and the New York Times Budget Section (which are linked to the syllabus on the website). While you read the material, keep in mind the following questions:

1. What is the government budget deficit? How does the government finance the budget deficit? What is the government budget surplus? How does the government “spend” the budget surplus?

2. What is the government debt? How is the government deficit/surplus related the debt?

3. What are some of the problems with the usual measure of the budget deficit and debt?

4. What is the difference between the traditional view and the Ricardian view of government debt? Why does a new issuance of government debt (say $1,000) constitute net wealth under the traditional view but not under the Ricardian view?

5. How can the central bank pay off some the government debt? What problem would this payment scheme create?

6. What are the details of the Bush tax cut? Which tax rates are reduced and thus whose taxes are cut?

7. Why does Jeff Mandrick argue that the Bush tax cut is “Clever Politics but Unwise Fiscal Policy”?

8. What is Brian Nottage’s opinion of the Bush tax cut? Does he support it?

9. Here is the Oberlin special. What do you think of the Bush tax cut? Is it “fair” or “unfair”? Think about your sense of “fairness.”