

SELECTED READINGS

Focus on: Olivier Blanchard

March 2010



INDEX

INTRODUCTION.....	7
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1 WORKING PAPERS AND ARTICLES	9
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1.1 Olivier Blanchard, Carlo Cottarelli, Antonio Spilimbergo and Steven Symansky, 2009, "Fiscal Policy for the Crisis".	9
1.2 Olivier J. Blanchard, Jean-Paul L'Huillier and Guido Lorenzoni, 2009, "News, Noise, and Fluctuations: An Empirical Exploration", NBER Working Paper No. w15015.	9
1.3 Olivier J. Blanchard, 2008, "Cracks in the System: Repairing the Damaged Global Economy", Finance & Development December 2008.	10
1.4 Olivier Blanchard, 2008, "Comments on "Credit Frictions and Optimal Monetary Policy"" by Curdia and Woodford.....	10
1.5 Olivier Blanchard, 2008, "Discussion of 'Macroeconomic Crises since 1970'", by Robert Barro and Jose Ursua.....	10
1.6 Olivier Blanchard, 2007, "Monetary Policy, Labor Markets, and Fiscal Policy", Remarks at the 50th Anniversary of the Bundesbank Conference in September 2007.	11
1.7 Olivier Blanchard, 2007, "Preface to "Global Imbalances. Is the World Economy Really at Risk?"" by Anton Brender and Florence Pisani.....	11
1.8 Olivier J. Blanchard and Jordi Gali, 2007, "The Macroeconomic Effects of Oil Price Shocks: Why are the 2000s so Different from the 1970s?", MIT Department of Economics Working Paper No. 07-21.	11
1.9 Olivier Blanchard, Robert Solow and Beth Anne Wilson, "Productivity and Unemployment".....	11
1.10 Olivier Blanchard, 2007, "Current Account Deficit in Rich Countries", MIT Department of Economics Working Paper No. 07-06.....	12
1.11 Olivier Blanchard, 2006, "Monetary Policy; Science or Art?"	13
1.12 Olivier Blanchard, 2006, "Adjustment within the Euro. The Difficult Case of Portugal".	13
1.13 Olivier J. Blanchard and Jordi Gali, 2006, "A New Keynesian Model with Unemployment", MIT Department of Economics Working Paper No. 06-22.	13
1.14 Olivier Blanchard, 2006, "Discussion of "The Return to Capital in China"" by Chong-En Bai, Chang-Tai Hsieh, Yigyi Qian, Zhenjie Qian.	14
1.15 Olivier Blanchard, 2006, "Crowding Out", The New Palgrave Dictionary of Economics, 2nd edition.....	14
1.16 Olivier Blanchard, 2006, "Neoclassical Synthesis", The New Palgrave Dictionary of Economics, 2nd edition.	14
1.17 Olivier Blanchard, 2006, "Discussion of "Do Taxes Explain European Employment? Invisible Labor, Human Capital, Lotteries, and Savings"" by Lars Ljungqvist and Thomas Sargent.14	

1.18	Olivier Blanchard and Thomas Philippon, 2006, "The Quality of Labor Relations and Unemployment".....	14
1.19	Olivier Blanchard, 2006, "A review of "Unemployment. Macroeconomic Performance and the Labour Market"" by Layard, Nickell and Jackman.	15
1.20	Olivier Blanchard, 2006, "Is There A Viable European Social and Economic Model", MIT Department of Economics Working Paper No. 06-21.	15
1.21	Olivier Blanchard, 2006, "The Many Dimensions of Work, Leisure, and Employment: Thoughts at the End of the Conference", Comments on the papers presented at the Rodolfo DeBenedetti Conference, Portovenere, June 2006.	16
1.22	Olivier Blanchard, 2005, "European Unemployment: The Evolution of Facts and Ideas", MIT Department of Economics Working Paper No. 05-24.	16
1.23	Olivier Blanchard, 2005, "Comments on "Contrasting Europe's Decline; Do Product Market Reforms Help?" by Riccardo Faini et al.....	16
1.24	Olivier Blanchard and Jordi Gali, 2005, "Real Wage Rigidities and the New Keynesian Model", MIT Department of Economics Working Paper No. 05-28.....	16
1.25	Olivier Blanchard, Francesco Giavazzi and Filipa Sa, 2005, "The U.S. Current Account and the Dollar", prepared for the AEA meetings in Philadelphia, January 2005, MIT Department of Economics Working Paper No. 05-02.	17
1.26	Olivier Blanchard, 2004, "Fiscal Dominance and Inflation Targeting: Lessons from Brazil", MIT Department of Economics Working Paper No. 04-13.	18
1.27	Olivier Blanchard, 2004, "The Economic Future of Europe", Journal of Economic Perspectives, MIT Economics Working Paper No. 04-04.	19
1.28	Olivier Blanchard, 2004, "Designing Labor Market Institutions".	19
1.29	Olivier Blanchard and Thomas Philippon, 2004, "The Quality of Labor Relations and Unemployment", MIT Department of Economics Working Paper No. 04-25.	19
1.30	Olivier Blanchard, 2004, "Explaining European Unemployment", NBER Reporter, 2004. 20	
1.31	Olivier Blanchard and Jean Tirole, 2004, "The Joint Design of Unemployment Insurance and Employment Protection. A First Pass", MIT Department of Economics Working Paper No. 04-15. 20	
1.32	Olivier Blanchard, 2004, "Comments on Alan Blinder's 'The Case Against the Case Against Discretionary Policy' ".	21
1.33	Olivier Blanchard, 2004, "Interview with Stanley Fischer", Macroeconomic Dynamics.21	
1.34	Olivier Blanchard and Jean Tirole, 2003, "Contours of employment protection reform", MIT Department of Economics Working Paper No. 03-35.	21
1.35	Olivier Blanchard and Francesco Giavazzi, 2003, "Improving the SGP through a proper accounting of public investment", CEPR, Discussion paper No. 4220.....	22
1.36	Olivier Blanchard, 2003, "Comments on "inflation targeting in transition economies; Experience and prospects", by Jiri Jonas and Frederic Mishkin".	22
1.37	Olivier Blanchard, 2003, "Monetary Policy and Unemployment".	22

1.38	Olivier Blanchard, 2003, Comments on "The price level, relative prices, and economic stability: Aspects of the inter-war debate," by David Laidler.....	22
1.39	Olivier Blanchard, 2003, "Comments on "The Case of Missing Productivity Growth; or, Why Has Productivity Accelerated in the United States but not the United Kingdom"" by Basu et al.	23
1.40	Olivier Blanchard, 2003, "Peut-on éliminer le chômage en Europe?", Transcription of l'IDEI October 2003 Conference in Toulouse.....	23
1.41	Olivier Blanchard and Francesco Giavazzi, 2002, "Current Account Deficits in the Euro Area. The End of the Feldstein Horioka Puzzle?", MIT Department of Economics Working Paper No. 03-05.....	23
1.42	Olivier Blanchard and Philippe Weil, 2002, "Dynamic Efficiency, the Riskless Rate, and Debt Ponzi Games Under Uncertainty", MIT Department of Economics Working Paper No. 01-41.	24
1.43	Olivier Blanchard, 2002, "Designing Labor Market Institutions remarks at the Conference "Beyond Transition"", Warsaw.	24
1.44	Olivier Blanchard, 2002, "Comments on "Catching Up with the Leaders: The Irish Hare"" by Patrick Honohan and Brendan Walsh.....	24
1.45	Olivier Blanchard, 2002, "Comments on "Institutions, Economic Structure, and Performance: Is Italy Doomed?"" by Guiseppe Nicoletti.....	24
1.46	Olivier Blanchard, 2001, "The EU Enlargement, and Immigration from Eastern Europe", Comments at a Conference on Immigration, Trieste.	25
1.47	Olivier Blanchard, 2001, "Comments on "Do We Really Know that Oil Caused the Great Stagflation? A Monetary Alternative"", Barsky and Kilian.	25
1.48	Olivier Blanchard, 2001, "Comments on "The International Lender of Last Resort: How Large is Large Enough?"" by Olivier Jeanne and Charles Wyplosz, NBER Conference in Monterey CA.....	25
1.49	Olivier Blanchard, 2001, "Country Adjustments within Euroland. Lessons after Two Years", Written for CEPR annual report on the European Central Bank, March 2001.....	25
1.50	Olivier Blanchard and John Simon, 2001, "The Long and Large Decline in U.S. Output Volatility", for Brookings Meeting on Economic Activity, MIT Department of Economics, Working Paper No. 01-29.	25
1.51	Olivier Blanchard and Augustin Landier, 2001 "The Perverse Effects of Partial Labor Market Reform: Fixed Duration Contracts in France", MIT Dept. of Economics Working Paper No. 01-14.....	26
1.52	Olivier Blanchard, 2000, "In Honor of Andrei Shleifer: Winner of the John Bates Clark Medal".	27
1.53	Olivier Blanchard, 2000, "What Do We Know about Macroeconomics that Fisher and Wicksell Did Not?", NBER working paper No. 7550.	27
1.54	Olivier Blanchard, 2000, ""The Future of Unions", Comments at a conference in Naples, Italy".	27
1.55	Olivier Blanchard, 2000, "Commentary", FRBNY Economic Policy Review / April 2000.	27

1.56	Olivier Blanchard, 2000, “Bubbles, Liquidity Traps, and Monetary Policy. Comments on Jinushi et al, and on Bernanke.”	27
1.57	Olivier Blanchard and Francesco Giavazzi, 2000, “Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets”, MIT Dept. of Economics Working Paper No. 01-02.	28
1.58	Olivier Blanchard and Andrei Shleifer, 2000, “Federalism With and Without Political Centralization: China vs. Russia”	29
1.59	Olivier Blanchard, 2000, “The Economics of Unemployment: Shocks, Institutions, and Interactions” (Lionel Robbins Lectures, October 2000).	30
1.60	Olivier Blanchard and Roberto Perotti, 1999, “An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output”	30
1.61	Olivier Blanchard and Larry Katz, 1999, “Wage Dynamics: Reconciling Theory and Evidence”	30
1.62	Olivier Blanchard and Justin Wolfers 1999, “The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence”, Harry Johnson Lecture.	30
1.63	Olivier Blanchard and Pedro Portugal, 1998, “What Hides Behind an Unemployment Rate: Comparing Portuguese and U.S. unemployment”, NBER , Working paper No. 6636.	30
1.64	Olivier Blanchard, 1998, “Revisiting European unemployment: Unemployment, capital accumulation, and factor prices”, Geary Lecture.	31
1.65	Olivier Blanchard, 1997, “The Medium Run”	31
1.66	Olivier Blanchard, 1990, “The Stock Market, Profit, and Investment”, Working paper No. 3370.	31
1.67	Olivier Blanchard and Danny Quah, 1990, “The Dynamic Effects of Aggregate Demand and Supply Disturbances”, NBER Working Paper No. W2737.	31
2	LIGHT READINGS	33
2.1	Olivier Blanchard, August 2007, “Réformes du marché du travail et négociations entre partenaires sociaux”	33
2.2	Olivier Blanchard, January 2006, “Emploi: la solution passe par le CUP (contrat unique progressif)	33
2.3	Olivier Blanchard, June 2005, “Why the French Dislike "Bruxelles"”	33
2.4	Olivier Blanchard, December 2003, “Reforming Employment Protection”	33
2.5	Olivier Blanchard, December 2002, “The Crisis on the Left”	33
2.6	Olivier Blanchard, December 2001, “Le coût élevé des symboles”	33
2.7	Olivier Blanchard, November 2001, “Scénarios catastrophe? ”	33
2.8	Olivier Blanchard, October 2001, “L'inquiétude et l'économie”	34
2.9	Olivier Blanchard, June 2001, “Lutte des classes et globalisation”	34
2.10	Olivier Blanchard, April 2001, “Pas de panique”	34

2.11	Olivier Blanchard, March 2001, “L'étroite marge de manœuvre japonaise”.....	34
2.12	Olivier Blanchard, February 2001, “La récession américaine”.	34
2.13	Olivier Blanchard, January 2001, “Etre de gauche n'est pas être ignorant ”.....	34
2.14	Olivier Blanchard, November 2000, “Emploi: le devoir de vigilance”.	35
2.15	Olivier Blanchard, September 2000, “A quand les réformes? ”.	35
2.16	Olivier Blanchard, June 2000, “Concertation à la hollandaise”.	35
2.17	Olivier Blanchard, April 2000, “La méthode Jospin et les retraites”.....	35
2.18	Olivier Blanchard, March 2000, “E-pigeons”.....	35
2.19	Olivier Blanchard, January 2000, Le temps des vaches grasses”.	35
2.20	Olivier Blanchard, December 1999, “L'Eurolande manque de coordination”.....	35
2.21	Olivier Blanchard, November 1999, “Des reformes viables pour la Russie”.....	36
2.22	Olivier Blanchard, September 1999, “Le carcan des licenciements”.....	36
2.23	Olivier Blanchard, June 1999, “Les lecons de la transition a l'Est”.	36
2.24	Olivier Blanchard, November 1998, “Plaidoyer pour l'inflation”.	36
2.25	Olivier Blanchard, October 1998, “Les deux crises”.	36
2.26	Olivier Blanchard, September 1998, “Le faibles coûts des garde fous”.	36
2.27	Olivier Blanchard, June 1998, “L'université malade”.....	36

3 BOOKS 37

3.1	Olivier Blanchard, 2008, “Macroeconomics”, 5 th edition.	37
3.2	Olivier Blanchard, 1997, “The Economics of Post Communist Transition”, Clarendon press, Oxford.....	37

INTRODUCTION

Born in 1948, a citizen of France, Olivier Blanchard has been chief economist at the International Monetary Fund since September 2008. He has spent his professional life in the United States, at Cambridge, Massachusetts. After obtaining his Ph.D in economics at the Massachusetts Institute of Technology in 1977, he taught at Harvard University, returning to MIT in 1982, where he has been since then. He is currently the Class of 1941 Professor of Economics, and past Chair of the Economics Department.

Olivier Blanchard is a macroeconomist who has worked on a wide set of issues, from the role of monetary policy to the nature of speculative bubbles, to the nature of the labour market and the determinants of unemployment, to transition of the economies of the former communist countries. In the process, he has worked with numerous countries and international organizations. He is the author of many books and articles, including two textbooks in macroeconomics, one at the graduate level with Stanley Fischer, one at the undergraduate level.

He is a fellow and Council member of the Econometric Society, a past vice-president of the American Economic Association, a member of the American Academy of Sciences, and a member of the French Economic Advisory Council to the French Prime Minister.

The following list is a non-exhaustive, subjective selection of Olivier Blanchard's publications.

More information can be found at:

- The address of Olivier Blanchard's homepage at:

<http://econ-www.mit.edu/faculty/blanchar>

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gianluigi.mazzi@ec.europa.eu.

1 WORKING PAPERS AND ARTICLES

1.1 Olivier Blanchard, Carlo Cottarelli, Antonio Spilimbergo and Steven Symansky, 2009, “Fiscal Policy for the Crisis”.

The current crisis calls for two main sets of policy measures. First, measures to repair the financial system. Second, measures to increase demand and restore confidence. While some of these measures overlap, the focus of this note is on the second set of policies, and more specifically, given the limited room for monetary policy, on fiscal policy.

The optimal fiscal package should be timely, large, lasting, diversified, contingent, collective, and sustainable: timely, because the need for action is immediate; large, because the current and expected decrease in private demand is exceptionally large; lasting because the downturn will last for some time; diversified because of the unusual degree of uncertainty associated with any single measure; contingent, because the need to reduce the perceived probability of another "Great Depression" requires a commitment to do more, if needed; collective, since each country that has fiscal space should contribute; and sustainable, so as not to lead to a debt explosion and adverse reactions of financial markets. Looking at the content of the fiscal package, in the current circumstances, spending increases, and targeted tax cuts and transfers, are likely to have the highest multipliers. General tax cuts or subsidies, either for consumers or for firms, are likely to have lower multipliers.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1339442_code40873.pdf?abstractid=1339442&mirid=1

1.2 Olivier J. Blanchard, Jean-Paul L'Huillier and Guido Lorenzoni, 2009, “News, Noise, and Fluctuations: An Empirical Exploration”, NBER Working Paper No. w15015.

We explore empirically models of aggregate fluctuations with two basic ingredients: agents form anticipations about the future based on noisy sources of information;

these anticipations affect spending and output in the short run. Our objective is to separate fluctuations due to actual changes in fundamentals (news) from those due to temporary errors in the private sector's estimates of these fundamentals (noise). Using a simple model where the consumption random walk hypothesis holds exactly, we address some basic methodological issues and take a first pass at the data. First, we show that if the econometrician has no informational advantage over the agents in the model, structural VARs cannot be used to identify news and noise shocks. Next, we develop a structural Maximum Likelihood approach which allows us to identify the model's parameters and to evaluate the role of news and noise shocks. Applied to postwar U.S. data, this approach suggests that noise shocks play an important role in short-run fluctuations.

Full text available on-line at:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1412047

1.3 Olivier J. Blanchard, 2008, “Cracks in the System: Repairing the Damaged Global Economy”, Finance & Development December 2008.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/3585>

1.4 Olivier Blanchard, 2008, “Comments on "Credit Frictions and Optimal Monetary Policy"” by Curdia and Woodford.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/3056>

1.5 Olivier Blanchard, 2008, “Discussion of 'Macroeconomic Crises since 1970'”, by Robert Barro and Jose Ursua.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/2863>

1.6 Olivier Blanchard, 2007, “Monetary Policy, Labor Markets, and Fiscal Policy”, Remarks at the 50th Anniversary of the Bundesbank Conference in September 2007.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/2003>

1.7 Olivier Blanchard, 2007, “Preface to "Global Imbalances. Is the World Economy Really at Risk?"” by Anton Brender and Florence Pisani.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/680>

1.8 Olivier J. Blanchard and Jordi Gali, 2007, “The Macroeconomic Effects of Oil Price Shocks: Why are the 2000s so Different from the 1970s?”, MIT Department of Economics Working Paper No. 07-21.

We characterize the macroeconomics performance of a set of industrialized economies in the aftermath of the oil price shocks of the 1970s and of the last decade, focusing on the differences across episodes. We examine four different hypotheses for the mild effects on inflation and economic activity of the recent increase in the price of oil: (a) good luck (i.e. lack of concurrent adverse shocks), (b) smaller share of oil in production, (c) more flexible labor markets, and (d) improvements in monetary policy. We conclude that all four have played an important role.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1114985_code229587.pdf?abstractid=1008395&mirid=1

1.9 Olivier Blanchard, Robert Solow and Beth Anne Wilson, “Productivity and Unemployment”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/1909>

1.10 Olivier Blanchard, 2007, “Current Account Deficit in Rich Countries”, MIT Department of Economics Working Paper No. 07-06.

Current account imbalances have steadily increased in rich countries over the last 20 years. While the U.S. current account deficit dominates the numbers and the news, other countries, especially within the Euro area, are also running large deficits.

These deficits are different from the Latin American deficits of the early 1980s, or the Mexican deficit of the early 1990s. They involve rich countries; they reflect mostly private saving and investment decisions, and fiscal deficits often play a marginal role; and the deficits are financed mostly through equity, FDI, and own-currency bonds rather than through bank lending.

Yet, there appears a widely shared worry that these deficits are too large, and government intervention is required. My purpose, in this lecture, is to examine the logic of this argument. I ask the following question: Assume that deficits reflect private saving and investment decisions. Assume also that people and firms have rational expectations. Should the government intervene, and, if so, how?

To answer the question, I construct a simple benchmark. In the benchmark, the outcome is first best and there is no need nor justification for government intervention. I then introduce simple distortions in either goods, labor, or financial markets, and characterize the equilibrium in each case. I derive optimal policy and the implications for the current account. I show that optimal policy may or may not lead to smaller current account deficits.

I see the model and the extensions very much as a first pass. Sharper conclusions require a better understanding of the exact nature and the extent of distortions, and we do not have it. Such understanding is needed however to improve the quality of the current debate.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID963198_code229587.pdf?abstractid=963198&mirid=1

1.11 Olivier Blanchard, 2006, “Monetary Policy; Science or Art?”

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/742>

1.12 Olivier Blanchard, 2006, “Adjustment within the Euro. The Difficult Case of Portugal”.

In the second half of the 1990s, the prospect of entry in the euro led to an output boom and large current account deficits in Portugal. Since then, the boom has turned into a slump. Current account deficits are still large, and so are budget deficits. This paper reviews the facts, the likely adjustment in the absence of major policy changes, and examines policy options.

Full text available on-line at:

<http://econ-www.mit.edu/files/740>

1.13 Olivier J. Blanchard and Jordi Gali, 2006, “A New Keynesian Model with Unemployment”, MIT Department of Economics Working Paper No. 06-22.

We construct a utility-based model of fluctuations, with nominal rigidities and unemployment, and draw its implications for the unemployment-inflation trade-off and for the conduct of monetary policy. We proceed in two steps. We first leave nominal rigidities aside. We show that, under a standard utility specification, productivity shocks have no effect on unemployment in the constrained efficient allocation. We then focus on the implications of alternative real wage setting mechanisms for fluctuations in unemployment. We show the role of labor market frictions and real wage rigidities in determining the effects of productivity shocks on unemployment. We then introduce nominal rigidities in the form of staggered price setting by firms. We derive the relation between inflation and unemployment and discuss how it is influenced by the presence of labor market frictions and real wage rigidities. We show the nature of the tradeoff between inflation and unemployment stabilization, and its dependence on labor market characteristics. We draw the implications for optimal monetary policy.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID920959_code629430.pdf?abstractid=920959&mirid=1

1.14 Olivier Blanchard, 2006, “Discussion of "The Return to Capital in China"” by Chong-En Bai, Chang-Tai Hsieh, Yigyi Qian, Zhenjie Qian.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/679>

1.15 Olivier Blanchard, 2006, “Crowding Out”, The New Palgrave Dictionary of Economics, 2nd edition.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/678>

1.16 Olivier Blanchard, 2006, “Neoclassical Synthesis”, The New Palgrave Dictionary of Economics, 2nd edition.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/677>

1.17 Olivier Blanchard, 2006, “Discussion of "Do Taxes Explain European Employment? Invisible Labor, Human Capital, Lotteries, and Savings"” by Lars Ljungqvist and Thomas Sargent.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/675>

1.18 Olivier Blanchard and Thomas Philippon, 2006, “The Quality of Labor Relations and Unemployment”.

There is a clear negative relation across OECD countries between measures of the quality of labor relations and unemployment. We argue that conflictual labor relations

cause high unemployment, and we propose a model to think about this issue. Empirically, we use historical evidence from the 19th century to construct an instrument for current labor relations and establish causality. Theoretically, we consider an economy where asymmetric information can result in bargaining failures, inefficiencies and high unemployment in equilibrium. These inefficiencies can however be alleviated by higher trust, sustained through repeated interactions between firms and workers. We think of countries with different labor relations as playing different equilibria of the same repeated game, and we use our model to interpret cross-country and time series facts about labor relations, strikes, and unemployment in OECD countries since the early 1970s.

Full text available on-line at:

<http://econ-www.mit.edu/files/712>

1.19 Olivier Blanchard, 2006, “A review of "Unemployment. Macroeconomic Performance and the Labour Market"” by Layard, Nickell and Jackman.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/711>

1.20 Olivier Blanchard, 2006, “Is There A Viable European Social and Economic Model”, MIT Department of Economics Working Paper No. 06-21.

In this lecture, I argue that the efficiency cost of generous but well designed social insurance need not be very large, and that there is indeed a viable European model, based on three legs: competition in goods markets, insurance in labor markets, and the active use of macroeconomic policy.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID916606_code229587.pdf?abstractid=916606&mirid=1

- 1.21 Olivier Blanchard, 2006, “The Many Dimensions of Work, Leisure, and Employment: Thoughts at the End of the Conference”, Comments on the papers presented at the Rodolfo DeBenedetti Conference, Portovenere, June 2006.**

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/690>

- 1.22 Olivier Blanchard, 2005, “European Unemployment: The Evolution of Facts and Ideas”, MIT Department of Economics Working Paper No. 05-24.**

In the 1970s, European unemployment started increasing. It increased further in the 1980s, to reach a plateau in the 1990s. It is still high today, although the average unemployment rate hides a high degree of heterogeneity across countries. The focus of researchers and policy makers was initially on the role of shocks. As unemployment remained high, the focus has progressively shifted to institutions. This paper reviews the interaction of facts and theories, and gives a tentative assessment of what we know and what we still do not know.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID907881_code229587.pdf?abstractid=825885&mirid=1

- 1.23 Olivier Blanchard, 2005, “Comments on "Contrasting Europe's Decline; Do Product Market Reforms Help?"” by Riccardo Faini et al.**

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/674>

- 1.24 Olivier Blanchard and Jordi Gali, 2005, “Real Wage Rigidities and the New Keynesian Model”, MIT Department of Economics Working Paper No. 05-28.**

Most central banks perceive a trade-off between stabilizing inflation and stabilizing the gap between output and desired output. However, the standard new Keynesian framework implies no such trade-off. In that framework, stabilizing inflation is

equivalent to stabilizing the welfare-relevant output gap. In this paper, we argue that this property of the new Keynesian framework, which we call the divine coincidence, is due to a special feature of the model: the absence of non trivial real imperfections.

We focus on one such real imperfection, namely, real wage rigidities. When the baseline new Keynesian model is extended to allow for real wage rigidities, the divine coincidence disappears, and central banks indeed face a trade-off between stabilizing inflation and stabilizing the welfare-relevant output gap. We show that not only does the extended model have more realistic normative implications, but it also has appealing positive properties. In particular, it provides a natural interpretation for the dynamic inflation - unemployment relation found in the data.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID842285_code229587.pdf?abstractid=842285&mirid=1

1.25 Olivier Blanchard, Francesco Giavazzi and Filipa Sa, 2005, “The U.S. Current Account and the Dollar”, prepared for the AEA meetings in Philadelphia, January 2005, MIT Department of Economics Working Paper No. 05-02.

There are two main forces behind the large U.S. current account deficits. First, an increase in the U.S. demand for foreign goods. Second, an increase in the foreign demand for U.S. assets.

Both forces have contributed to steadily increasing current account deficits since the mid-1990s. This increase has been accompanied by a real dollar appreciation until late 2001, and a real depreciation since. The depreciation accelerated in late 2004, raising the questions of whether and how much more is to come, and if so, against which currencies, the euro, the yen, or the renminbi.

Our purpose in this paper is to explore these issues. Our theoretical contribution is to develop a simple model of exchange rate and current account determination based on imperfect substitutability in both goods and asset markets, and to use it to interpret the past and explore alternative scenarios for the future. Our practical conclusions are that

substantially more depreciation is to come, surely against the yen and the renminbi, and probably against the euro.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID726950_code229587.pdf?abstractid=655402&mirid=1

1.26 Olivier Blanchard, 2004, “Fiscal Dominance and Inflation Targeting: Lessons from Brazil”, MIT Department of Economics Working Paper No. 04-13.

A standard proposition in open-economy macroeconomics is that a central-bank-engineered increase in the real interest rate makes domestic government debt more attractive and leads to a real appreciation. If, however, the increase in the real interest rate also increases the probability of default on the debt, the effect may be instead to make domestic government debt less attractive, and to lead to a real depreciation. That outcome is more likely the higher the initial level of debt, the higher the proportion of foreign-currency-denominated debt, and the higher the price of risk. Under that outcome, inflation targeting can clearly have perverse effects: An increase in the real interest in response to higher inflation leads to a real depreciation. The real depreciation leads in turn to a further increase in inflation. In this case, fiscal policy, not monetary policy, is the right instrument to decrease inflation. This paper argues that this is the situation the Brazilian economy found itself in 2002 and 2003. It presents a model of the interaction between the interest rate, the exchange rate, and the probability of default, in a high-debt high-risk-aversion economy such as Brazil during that period. It then estimates the model, using Brazilian data. It concludes that, in 2002, the level and the composition of public debt in Brazil, and the general level of risk aversion in world financial markets, were indeed such as to imply perverse effects of the interest rate on the exchange rate and on inflation.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID518265_code229587.pdf?abstractid=518265&mirid=1

1.27 Olivier Blanchard, 2004, “The Economic Future of Europe”, Journal of Economic Perspectives, MIT Economics Working Paper No. 04-04.

After three years of near stagnation, the mood in Europe is definitely gloomy. Many doubt that the European model has a future. In this paper, I argue that things are not so bad, and there is room for optimism.

Over the last thirty years, productivity growth has been much higher in Europe than in the United States. Productivity levels are roughly similar in the European Union and in the United States today. The main difference is that Europe has used some of the increase in productivity to increase leisure rather than income, while the U.S. has done the opposite.

Turning to the present, a deep and wide ranging reform process is taking place. This reform process is driven by reforms in financial and product markets. Reforms in those markets are in turn putting pressure for reform in the labor market. Reform in the labor market will eventually take place, but not overnight and not without political tensions. These tensions have dominated and will continue to dominate the news; but they are a symptom of change, not a reflection of immobility.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID500183_code229587.pdf?abstractid=500183&mirid=1

1.28 Olivier Blanchard, 2004, “Designing Labor Market Institutions”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/687>

1.29 Olivier Blanchard and Thomas Philippon, 2004, “The Quality of Labor Relations and Unemployment”, MIT Department of Economics Working Paper No. 04-25.

In countries where wages are primarily set by collective bargaining, the effects on unemployment of changes in the economic environment depend crucially on the speed of learning of unions. This speed of learning is likely to depend in turn on the

quality of the dialogue that unions have with firms, on what can more generally be called the quality of labor relations. In this paper, we examine the role this quality of labor relations has played in the evolution of unemployment across European countries over the last 30 years. We conclude that it has played an important role: Countries with worse labor relations have experienced higher unemployment. This conclusion remains even after controlling for labor institutions.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID559203_code229587.pdf?abstractid=559203&mirid=1

1.30 Olivier Blanchard, 2004, “Explaining European Unemployment”, NBER Reporter, 2004.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/710>

1.31 Olivier Blanchard and Jean Tirole, 2004, “The Joint Design of Unemployment Insurance and Employment Protection. A First Pass”, MIT Department of Economics Working Paper No. 04-15.

Unemployment insurance and employment protection are typically discussed and studied in isolation. In this paper, we argue that they are tightly linked, and we focus on their joint optimal design.

We start our analysis with a simple benchmark, with risk averse workers, risk neutral firms, and random shocks to productivity. In this benchmark, we show that unemployment insurance comes with employment protection - in the form of layoff taxes; indeed, optimality requires that layoff taxes be equal to unemployment benefits. We then explore the implications of four broad categories of deviations: limits on insurance, limits on layoff taxes, ex-post wage bargaining, and ex-ante heterogeneity of firms or workers. We show how the design must be modified in each case. The scope for insurance may be more limited than in the benchmark; so may the scope for employment protection. The general principle remains however, namely the need to look at unemployment insurance and employment protection together, rather than in isolation.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID848465_code229587.pdf?abstractid=527882&mirid=1

1.32 Olivier Blanchard, 2004, “Comments on Alan Blinder's 'The Case Against the Case Against Discretionary Policy' ”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/673>

1.33 Olivier Blanchard, 2004, “Interview with Stanley Fischer”, Macroeconomic Dynamics.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/672>

1.34 Olivier Blanchard and Jean Tirole, 2003, “Contours of employment protection reform”, MIT Department of Economics Working Paper No. 03-35.

Starting with a simple benchmark, we first derive the characteristics of optimal employment protection. In the benchmark, employment protection takes the form of layoff taxes, used to finance unemployment benefits. We then consider a number of extensions, and show how this principle must be modified and refined, but not abandoned.

We then turn to the employment protection system in place in France today, and show that it differs from this principle in two main dimensions. First, contributions by firms to the unemployment insurance fund take the form of payroll taxes rather than layoff taxes. Second, the layoff process is subject to heavy administrative and judicial control.

This leads us to make two main recommendations for reform: The introduction of a layoff tax, with a corresponding decrease in the payroll tax; and a reduced role of the judicial system in the layoff process.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID464282_code031104590.pdf?abstractid=464282&mirid=1

1.35 Olivier Blanchard and Francesco Giavazzi, 2003, “Improving the SGP through a proper accounting of public investment”, CEPR, Discussion paper No. 4220.

The Stability and Growth Pact (SGP) contains a serious error: the way governments are expected to account for public investment. Correcting this error and applying, as article 104.3 of the EU Treaty allows, the current rules of the Pact to a measure of the budget where the treatment of investment expenditures is done properly would, over time, drive the debt-GDP ratio to the ratio of public capital to GDP. Excluding net public investment from the definition of the budget that is relevant for the Pact would also help in the short run, by inducing countries to shift the composition of domestic demand, rather than to reduce its level.

Full text available on-line at:

<http://econ-www.mit.edu/files/735>

1.36 Olivier Blanchard, 2003, “Comments on "inflation targeting in transition economies; Experience and prospects", by Jiri Jonas and Frederic Mishkin”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/733>

1.37 Olivier Blanchard, 2003, “Monetary Policy and Unemployment”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/731>

1.38 Olivier Blanchard, 2003, Comments on "The price level, relative prices, and economic stability: Aspects of the inter-war debate," by David Laidler.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/667>

- 1.39 Olivier Blanchard, 2003, “Comments on "The Case of Missing Productivity Growth; or, Why Has Productivity Accelerated in the United States but not the United Kingdom"” by Basu et al.**

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/665>

- 1.40 Olivier Blanchard, 2003, “Peut-on éliminer le chômage en Europe?”, Transcription of I'DEI October 2003 Conference in Toulouse.**

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/709>

- 1.41 Olivier Blanchard and Francesco Giavazzi, 2002, “Current Account Deficits in the Euro Area. The End of the Feldstein Horioka Puzzle?”, MIT Department of Economics Working Paper No. 03-05.**

Both Portugal and Greece have been running large current account deficits, and these are expected to continue in the future. Yet, financial markets do not appear to be worried. Starting from this observation, we document that Portugal and Greece are in fact representative of a broader evolution: Increasing goods and financial market integration is leading to an increasing decoupling of saving and investment within the European Union, and even more so within the Euro area. In particular, it is allowing poorer countries to invest more, save less, and run larger current account deficits. The converse holds for the richer countries.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID372880_code030123590.pdf?abstractid=372880&mirid=1

1.42 Olivier Blanchard and Philippe Weil, 2002, “Dynamic Efficiency, the Riskless Rate, and Debt Ponzi Games Under Uncertainty”, MIT Department of Economics Working Paper No. 01-41.

In a dynamically efficient economy, can a government roll its debt forever and avoid the need to raise taxes? In a series of examples of production economies with zero growth, this paper shows that such Ponzi games may be infeasible even when the average rate of return on bonds is negative, and may be feasible even when the average rate of return on bonds is positive. The paper then reveals the structure which underlies these examples.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID290840_code011116600.pdf?abstractid=290840&mirid=1

1.43 Olivier Blanchard, 2002, “Designing Labor Market Institutions remarks at the Conference "Beyond Transition"”, Warsaw.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/664>

1.44 Olivier Blanchard, 2002, “Comments on "Catching Up with the Leaders: The Irish Hare"” by Patrick Honohan and Brendan Walsh.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/663>

1.45 Olivier Blanchard, 2002, “Comments on "Institutions, Economic Structure, and Performance: Is Italy Doomed?"” by Guiseppe Nicoletti.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/662>

1.46 Olivier Blanchard, 2001, "The EU Enlargement, and Immigration from Eastern Europe", Comments at a Conference on Immigration, Trieste.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/661>

1.47 Olivier Blanchard, 2001, "Comments on "Do We Really Know that Oil Caused the Great Stagflation? A Monetary Alternative"", Barsky and Kilian.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/660>

1.48 Olivier Blanchard, 2001, "Comments on "The International Lender of Last Resort: How Large is Large Enough?" by Olivier Jeanne and Charles Wyplosz, NBER Conference in Monterey CA.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/659>

1.49 Olivier Blanchard, 2001, "Country Adjustments within Euroland. Lessons after Two Years", Written for CEPR annual report on the European Central Bank, March 2001.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/721>

1.50 Olivier Blanchard and John Simon, 2001, "The Long and Large Decline in U.S. Output Volatility", for Brookings Meeting on Economic Activity, MIT Department of Economics, Working Paper No. 01-29.

The last two U.S. expansions have been unusually long. One view is that this is the result of luck, of an absence of major adverse shocks over the last twenty years. We argue that more is at work, namely a large underlying decline in output volatility. This decline is not a recent development, but rather a steady one, visible already in the

1950s and the 1960s, interrupted in the 1970s and early 1980s, with a return to trend in the late 1980s and the 1990s. The standard deviation of quarterly output growth has declined by a factor of 3 over the period. This is more than enough to account for the increased length of expansions.

We reach two other conclusions. First, the trend decrease can be traced to a number of proximate causes, from a decrease in the volatility in government spending early on, to a decrease in consumption and investment volatility throughout the period, to a change in the sign of the correlation between inventory investment and sales in the last decade. Second, there is a strong relation between movements in output volatility and inflation volatility. This association accounts for the interruption of the trend decline in output volatility in the 1970s and early 1980s.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID277356_code010725500.pdf?abstractid=277356&mirid=1

1.51 Olivier Blanchard and Augustin Landier, 2001 “The Perverse Effects of Partial Labor Market Reform: Fixed Duration Contracts in France”, MIT Dept. of Economics Working Paper No. 01-14.

Rather than decrease firing costs across the board, a number of European countries have allowed firms to hire workers on fixed-duration contracts. At the end of a given duration, these contracts can be terminated at little or no cost. If workers are kept on however, the contracts become subject to regular firing costs.

We argue in this paper that the effects of such a partial reform of employment protection may be perverse. The main effect may be high turnover in fixed-duration jobs, leading in turn to higher, not lower, unemployment. And, even if unemployment comes down, workers may actually be worse off, going through many spells of unemployment and fixed duration jobs, before obtaining a regular job. Looking at French data for young workers since the early 1980s, we conclude that the reforms have substantially increased turnover, without a substantial reduction in unemployment duration. If anything, their effect on the welfare of young workers appears to have been negative.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID262668_code010208500.pdf?abstractid=262668&mirid=1

1.52 Olivier Blanchard, 2000, “In Honor of Andrei Shleifer: Winner of the John Bates Clark Medal”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/658>

1.53 Olivier Blanchard, 2000, “What Do We Know about Macroeconomics that Fisher and Wicksell Did Not?”, NBER working paper No. 7550.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/656>

1.54 Olivier Blanchard, 2000, ““The Future of Unions”, Comments at a conference in Naples, Italy”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/655>

1.55 Olivier Blanchard, 2000, “Commentary”, FRBNY Economic Policy Review / April 2000.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/719>

1.56 Olivier Blanchard, 2000, “Bubbles, Liquidity Traps, and Monetary Policy. Comments on Jinushi et al, and on Bernanke.”.

Monetary policy has been rather boring in most OECD countries since the mid 1980s. This is largely the price of (earlier) success: Inflation started low, fluctuations in demand were limited, and steady-as-you-go policy turned out to be all that was

required. Not so in Japan, where the central bank has had to confront two of the toughest issues of monetary policy: how to react to asset bubbles and their aftermath, and, more recently, what to do when interest rates have already been reduced to zero. The paper by Jinushi et al, which focuses on the past, forces us to revisit the first issue. The paper by Bernanke, which focuses on current policy, forces us to think about the second. Let me take each one in turn.

Full text available on-line at:

<http://econ-www.mit.edu/files/718>

1.57 Olivier Blanchard and Francesco Giavazzi, 2000, “Macroeconomic Effects of Regulation and Deregulation in Goods and Labor Markets”, MIT Dept. of Economics Working Paper No. 01-02.

Product and labor market deregulations are fundamentally about reducing and redistributing rents, leading economic players to adjust in turn to this new distribution. Thus, even if deregulation eventually proves beneficial, it comes with strong distribution and dynamic effects. The transition may imply the decline of incumbent firms. Unemployment may increase for a while. Real wages may decrease before recovering, and so on.

To study these issues, we build a model based on two central assumptions: Monopolistic competition in the goods market, which determine the size of rents; and bargaining in the labor market, which determines the distribution of rents between workers and firms. We then think of product market regulation as determining both the entry costs faced by firms, and the degree of competition between firms. We think of labor market regulation as determining the bargaining power of workers. Having characterized the effects of labor and product market deregulation, we then use our results to study two specific issues. First, to shed light on macroeconomic evolutions in Europe over the last twenty years, in particular on the behavior of the labor share. Second, to look at political economy interactions between product and labor market deregulation.

Full text available on-line at:

http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID257542_code010126500.pdf?abstr actid=257542&mirid=1

1.58 Olivier Blanchard and Andrei Shleifer, 2000, “Federalism With and Without Political Centralization: China vs. Russia”.

In China, local governments have actively contributed to the growth of new firms. In Russia, local governments have typically stood in the way, be it through taxation, regulation, or corruption.

There appears to be two main reasons behind the behavior of local governments in Russia. First, capture by old firms, leading local governments to protect them from competition by new entrants. Second, competition for rents by local officials, eliminating incentives for new firms to enter.

Why has this not happened in China? We argue that the answer lies in the degree of political centralization present in China, but not in Russia. Transition in China has taken place under the tight control of the communist party. As a result, the central government has been in a strong position both to reward or to punish local administrations, reducing both the risk of local capture or the scope of competition for rents. By contrast, transition in Russia has come with the emergence of a fledgling democracy. The central government has been neither strong enough to impose its views, nor strong enough to set clear rules about the sharing of the proceeds of growth. As a result, local governments have had few incentives either to resist capture or to rein in competition for rents.

Based on the experience of China, a number of researchers have argued that federalism could play a central role in development. We agree, but with an important caveat. We believe the experience of Russia indicates that another ingredient is crucial, namely political centralization.

Full text available on-line at:

<http://econ-www.mit.edu/files/682>

1.59 Olivier Blanchard, 2000, “The Economics of Unemployment: Shocks, Institutions, and Interactions” (Lionel Robbins Lectures, October 2000).

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/708>

1.60 Olivier Blanchard and Roberto Perotti, 1999, “An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/723>

1.61 Olivier Blanchard and Larry Katz, 1999, “Wage Dynamics: Reconciling Theory and Evidence”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/704>

1.62 Olivier Blanchard and Justin Wolfers 1999, “The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence”, Harry Johnson Lecture.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/703>

1.63 Olivier Blanchard and Pedro Portugal, 1998, “What Hides Behind an Unemployment Rate: Comparing Portuguese and U.S. unemployment”, NBER , Working paper No. 6636.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/707>

1.64 Olivier Blanchard, 1998, “Revisiting European unemployment: Unemployment, capital accumulation, and factor prices”, Geary Lecture.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/697>

1.65 Olivier Blanchard, 1997, “The Medium Run”.

No abstract available.

Full text available on-line at:

<http://econ-www.mit.edu/files/696>

1.66 Olivier Blanchard, 1990, “The Stock Market, Profit, and Investment”, Working paper No. 3370.

Should managers, when making investment decisions, follow the signals given by the stock market even if those do not coincide with their own assessments of fundamental value? This paper reviews the theoretical arguments and examines the empirical evidence, constructing and using a new US time series of data on the q ratio from 1900 to 1988. We decompose q - the ratio of the market value of corporate capital to its replacement cost - into the product of two terms, reflecting "fundamentals" and "valuation", the ratio of market value to fundamentals. We then examine the relation of investment to each of the two, using a number of alternative proxies for fundamentals. We interpret our results as pointing, strongly but not overwhelmingly, to a larger role of "fundamentals" than of "valuation" in investment decisions.

Full text available on-line at:

<http://econ-www.mit.edu/files/716>

1.67 Olivier Blanchard and Danny Quah, 1990, “The Dynamic Effects of Aggregate Demand and Supply Disturbances”, NBER Working Paper No. W2737.

We interpret fluctuations in GNP and unemployment as due to two types of disturbances: disturbances that have a permanent effect on output and disturbances that do not. We interpret the first as supply disturbances, the second as demand

disturbances.

We find that demand disturbances have a hump shaped effect on both output and unemployment; the effect peaks after a year and vanishes after two to five years. Up to a scale factor, the dynamic effect on unemployment of demand disturbances is a mirror image of that on output. The effect of supply disturbances on output increases steadily over time, to reach a peak after two years and a plateau after five years. "Favorable" supply disturbances may initially increase unemployment. This is followed by a decline in unemployment, with a slow return over time to its original value.

While this dynamic characterization is fairly sharp, the data are not as specific as to the relative contributions of demand and supply disturbances to output fluctuations. We find that the time series of demand determined output fluctuations has peaks and troughs which coincide with most of the NBER troughs and peaks. But variance decompositions of output at various horizons giving the respective contributions of supply and demand disturbances are not precisely estimated. For instance, at a forecast horizon of four quarters, we find that, under alternative assumptions, the contribution of demand disturbances ranges from 40 to over 95 per cent.

Full text available on-line at:

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=226869

2 Light readings

- 2.1 Olivier Blanchard, August 2007, “Réformes du marché du travail et négociations entre partenaires sociaux”.**

Full text available on-line at:

<http://econ-www.mit.edu/files/1460>

- 2.2 Olivier Blanchard, January 2006, “Emploi: la solution passe par le CUP (contrat unique progressif).”**

Full text available on-line at:

<http://econ-www.mit.edu/files/834>

- 2.3 Olivier Blanchard, June 2005, “Why the French Dislike "Bruxelles"”.**

Full text available on-line at:

<http://econ-www.mit.edu/files/833>

- 2.4 Olivier Blanchard, December 2003, “Reforming Employment Protection”.**

Full text available on-line at:

<http://econ-www.mit.edu/files/809>

- 2.5 Olivier Blanchard, December 2002, “The Crisis on the Left”.**

Full text available on-line at:

<http://econ-www.mit.edu/files/808>

- 2.6 Olivier Blanchard, December 2001, “Le coût élevé des symboles”.**

Full text available on-line at:

<http://econ-www.mit.edu/files/810>

- 2.7 Olivier Blanchard, November 2001, “Scénarios catastrophe? ”.**

Full text available on-line at:

<http://econ-www.mit.edu/files/811>

2.8 Olivier Blanchard, October 2001, “L'inquiétude et l'économie”.

Full text available on-line at:

<http://econ-www.mit.edu/files/812>

2.9 Olivier Blanchard, June 2001, “Lutte des classes et globalisation”.

Full text available on-line at:

<http://econ-www.mit.edu/files/813>

2.10 Olivier Blanchard, April 2001, “Pas de panique”.

Full text available on-line at:

<http://econ-www.mit.edu/files/814>

2.11 Olivier Blanchard, March 2001, “L'étroite marge de manœuvre japonaise”.

Full text available on-line at:

<http://econ-www.mit.edu/files/815>

2.12 Olivier Blanchard, February 2001, “La récession américaine”.

Full text available on-line at:

<http://econ-www.mit.edu/files/816>

2.13 Olivier Blanchard, January 2001, “Être de gauche n'est pas être ignorant”.

Full text available on-line at:

<http://econ-www.mit.edu/files/817>

2.14 Olivier Blanchard, November 2000, “Emploi: le devoir de vigilance”.

Full text available on-line at:

<http://econ-www.mit.edu/files/818>

2.15 Olivier Blanchard, September 2000, “A quand les réformes? ”.

Full text available on-line at:

<http://econ-www.mit.edu/files/820>

2.16 Olivier Blanchard, June 2000, “Concertation à la hollandaise”.

Full text available on-line at:

<http://econ-www.mit.edu/files/821>

2.17 Olivier Blanchard, April 2000, “La méthode Jospin et les retraites”.

Full text available on-line at:

<http://econ-www.mit.edu/files/822>

2.18 Olivier Blanchard, March 2000, “E-pigeons”.

Full text available on-line at:

<http://econ-www.mit.edu/files/823>

2.19 Olivier Blanchard, January 2000, “Le temps des vaches grasses”.

Full text available on-line at:

<http://econ-www.mit.edu/files/824>

2.20 Olivier Blanchard, December 1999, “L'Eurolande manque de coordination”.

Full text available on-line at:

<http://econ-www.mit.edu/files/825>

2.21 Olivier Blanchard, November 1999, “Des reformes viables pour la Russie”.

Full text available on-line at:

<http://econ-www.mit.edu/files/826>

2.22 Olivier Blanchard, September 1999, “Le carcan des licenciements”.

Full text available on-line at:

<http://econ-www.mit.edu/files/827>

2.23 Olivier Blanchard, June 1999, “Les lecons de la transition a l'Est”.

Full text available on-line at:

<http://econ-www.mit.edu/files/828>

2.24 Olivier Blanchard, November 1998, “Plaidoyer pour l'inflation”.

Full text available on-line at:

<http://econ-www.mit.edu/files/832>

2.25 Olivier Blanchard, October 1998, “Les deux crises”.

Full text available on-line at:

<http://econ-www.mit.edu/files/829>

2.26 Olivier Blanchard, September 1998, “Le faibles coûts des garde fous”.

Full text available on-line at:

<http://econ-www.mit.edu/files/830>

2.27 Olivier Blanchard, June 1998, “L'université malade”.

Full text available on-line at:

<http://econ-www.mit.edu/files/831>

3 Books

3.1 Olivier Blanchard, 2008, “Macroeconomics”, 5th edition.

Blanchard presents a unified and global view of macroeconomics, enabling students to see the connections between the short-run, medium-run, and long-run.

3.2 Olivier Blanchard, 1997, “The Economics of Post Communist Transition”, Clarendon press, Oxford.

Transition in Central and Eastern Europe, as Blanchard points out, has adhered to a U-shaped response in terms of economic output - that is, a sharp decline in output followed by a recovery. Today, most of the countries of Central Europe seem to have enjoyed a steady upswing, while most Eastern European nations still appear to be near the bottom of the U. This book traces the courses, causes, and implications of this pattern, arguing that two basic mechanisms dominate such transition. The first is the reallocation between the state and private sectors, with a contraction of activities in the former and an expansion in the latter. The second is the restructuring of the old state sector, with the opportunity for large improvements in productivity. Against this background, the book's focus shifts to three particular factors: the adjustment of employment and wages in state firms to the initial shock of reduced demand for their goods; the dynamics of restructuring and privatization; and the relationship between reallocation, restructuring, and traffic in the labor market. The final section summarizes the discussion, and in doing so builds a general equilibrium model as a preliminary to the analysis of three sets of issues: the role of unemployment benefits and privatization rules; the interaction between transition and fiscal policy; and the evolution of the support for reform. The model is then used to address the thorny issue of the ideal speed for economic reform. The latest offering from a distinguished expert on the economics of transition, this is one of the first book-length analyses of the process of moving from a centrally-planned to a market economy.

Full text available on-line at:

<http://fds.oup.com/www.oup.co.uk/pdf/0-19-829399-2.pdf>