



PURDUE
UNIVERSITY

AGRICULTURAL ECONOMICS

AGEC 62500 – Macroeconomic Issues in Agriculture

COURSE SYLLABUS

Course: Macroeconomic Issues in Agriculture

Spring, 2017

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Class Meeting: Rawls 1071

MWF 9:30-10:20

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 the Euro crisis, global recession and recovery, and by 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 agricultural 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 had been, according to both Paarlberg and Schultz, the force behind the genesis of US farm policy, with its emphasis on supply control, during the Great Depression. Recent events have shown the importance of macroeconomic variables in determining commodity prices, as evidenced by the effects of the Great Recession on halting the rapid rise of commodity prices in mid-2008, on the effects of the weak Euro during the European Sovereign debt crisis keeping prices lower, and on the continuing debate on “financialization” of commodity markets. Volatility in the value of the dollar, 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 realized 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, inflationary expectations 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 economies grow, as shown in several recent developments seeking to explain both recent events and policy history in macro-theoretical frameworks consistent with observed empirical regularities.

Readings:

We will use *Macroeconomics*, 8th edition by Andrew Abel, Ben Bernanke and Dean Croushore (Pearson Addison Wesley, Boston, 2014) as a basic reference (The 7th 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 Parrish (Krannert) Library and/or via links on the class web site. Reading available as pdf documents will also be on S:/Restricted Shared/common/AGEC625 during the first week of class. 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 Blackboard Learn by logging in using *your career account* at:

<https://mycourses.purdue.edu/>

The Syllabus, Course Outline, and access to most Readings are on the course website. Blackboard 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 on that website. Links to readings and references are from the syllabus. Review questions for this course and old exams may also be accessed at the course website.

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%),
and class participation (10%).**

The **final** examination will be scheduled during the **week of May 1-6, 2017** (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 (but no electronic devices). Class presentation topics will be assigned (negotiated) based on student interests. Presentations will review a topic (literature review) rather than cover a single paper, and a written paper (approximately 10 pages) supporting the presentation is required.

Fine Print --

Communication --Please note that my primary out-of-class method of communication will be via email to your Purdue email address. I will not generally attempt to contact you at email addresses other than your Purdue email address. It is your responsibility to check for mail on a regular basis. I recommend checking your Purdue email account at least once every 24 hours.

Special Needs -- If you have a disability that requires academic adjustments, please make an appointment to meet with me during the first week of classes to discuss your needs. Please note that university policy requires all students with disabilities to be registered with Adaptive Programs in the Office of the Dean of Students before classroom accommodations can be provided.

Academic Integrity-- University policy on academic dishonesty is clear: academic dishonesty in any form is strictly prohibited. Anyone found to be cheating or helping someone else cheat will be referred directly to the Dean of Students for disciplinary action. Penalties are severe and may include dismissal from the University. The risks associated with cheating far outweigh the perceived benefits. Academic dishonesty includes citing someone else's work as your own or sharing your answers with someone else. If you are unsure whether your planned action constitutes academic dishonesty, seek clarification from your instructor. Other information regarding your rights and responsibilities as a student is contained in the Purdue University Code of Conduct.

Campus Emergencies --the unusual event of a major campus emergency, course requirements, deadlines and grading percentages are subject to changes that may be necessitated by a revised semester calendar or other circumstances. To get information about changes in this course, visit the course home page, contact me by email at abbottpc@purdue.edu, or call me at my office (494-4944274).

Course Outline and Readings: * = essential readings

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

Recent Macro-economy history & Current events

* Andrew Abel, Ben Bernanke and Dean Croushore, *Macroeconomics* 8th edition, Pearson Addison Wesley, Boston MA, 2014. Ch. 8 “Business Cycles,” & Ch. 13 “Exchange Rates, Business Cycles and Macroeconomic Policy in the Open Economy”

*[Economic Research Service](#), USDA, Outlook for U.S. Agricultural Trade,” AES-97, USDA, Washington, DC, November 30, 2016.

*[DeBoer, Larry](#), “Trump’s Election Changes the General Economy Outlook,” *Purdue Agricultural Economics Report*, December 2016, pp. 2-4.

IMF, “World Economic Outlook (WEO), International Monetary Fund, Washington DC, October 2016 and earlier. <http://www.imf.org/external/ns/cs.aspx?id=29>

IMF World Economic Outlook Databases
<http://www.imf.org/external/ns/cs.aspx?id=28>

[Congressional Budget Office](#) (CBO), “An Update to the Budget and Economic Outlook:2016 to 2026,” CBO, Congress of the United States, Washington, DC, August, 2016.

Macro data

*Bureau of Economic Analysis, U.S. Dept. of Commerce, (Macro data)
<http://www.bea.gov/index.htm>

*Federal Reserve Economic Data <http://research.stlouisfed.org/fred2/>

Great Recession

*Economist, “Phoney Currency wars”, February 16, 2013.

<http://www.economist.com/news/leaders/21571888-world-should-welcome-monetary-assertiveness-japan-and-america-phoney-currency-wars>

[Economist](#), “What is Quantitative easing?” Jan 14, 2015.

*[Hall, Robert](#), “Why Does the Economy Fall to Pieces after a Financial Crisis?” *Journal of Economic Perspectives*—Volume 24, Number 4—Fall 2010—Pages 3–20.

[Ng, Serena, and Jonathan H. Wright](#). 2013. "Facts and Challenges from the Great Recession for Forecasting and Macroeconomic Modeling." *Journal of Economic Literature* 51(4): 1120-54.

[Duca, John V., Danielle DiMartino and Jessica J. Renier](#), “Fed Confronts Financial Crisis by Expanding Its Role as Lender of Last Resort,” *Economic Letter—Insights from the Federal Reserve Bank of Dallas*, Vol. 4, No. 2, February/March 2009.

[Johnson, Simon](#), “A Second Great Depression, or Worse?” New York Times August 18, 2011.

[Jean Tirole](#), “Illiquidity and All Its friends,” *Journal of Economic Literature* 2011, 49:2, 287–325.

[Gorton, Gary, and Andrew Metrick](#). 2012. "Getting Up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide." *Journal of Economic Literature*, 50(1): 128-50.

[Blinder, Alan and Mark Zandi](#), “The Financial Crisis: Lessons for the Next One,” Center on Budget and Policy Priorities, Washington DC, October 2015.

Bernanke, Ben, “Why are interest rates so low, part 2: Secular stagnation,” Ben Bernanke’s Blog, Brookings Institution, Washington DC, March 2015. <http://www.brookings.edu/blogs/ben-bernanke/posts/2015/03/31-why-interest-rates-low-secular-stagnation>

Summers, Larry, “On secular stagnation: Larry Summers responds to Ben Bernanke,” Ben Bernanke’s Blog, Brookings Institution, Washington DC., April 2015. <http://www.brookings.edu/blogs/ben-bernanke/posts/2015/04/01-larry-summers-response>

Implications for Agriculture

[Bryce Cooke, Getachew Nigatu, Kari Heerman, Maurice Landes, and Ralph Seeley](#), “Global Macroeconomic Developments Drive Downturn in U.S. Agricultural Exports,” AES-94, ERS, USDA, Washington DC, July 2016.

* [Peters, May, Mathew Shane and David Torgerson](#), “What the 2008/2009 World Economic Crisis Means for Global Agricultural Trade,” Outlook Report No. (WRS-09-05), Economic Research Service, USDA, August 2009. <http://www.ers.usda.gov/Publications/WRS0905/>

[Mathew Shane, William Liefert, Mitch Morehart](#), May Peters, John Dillard, David Torgerson, and William Edmondson, “The 2008/2009 World Economic Crisis What It Means for U.S. Agriculture,” Outlook Report No. (WRS-09-02), Economic Research Service, USDA, March 2009. <http://www.ers.usda.gov/Publications/WRS0902/>

[Henderson, Jason and Maria Akers](#), “Recession catches Rural America,” *Economic Review* 94(1), Federal Reserve Bank of Kansas City, Winter 2009. <http://www.kc.frb.org/PUBLICAT/ECONREV/PDF/09q1Henderson.pdf>

[Jason Henderson](#), “Will the Rural Economy Rebound in 2010?” *Economic Review* 95(1), Federal Reserve Bank of Kansas City, Winter 2010.

[Gehlhar, Mark and Erik Dohlman](#), “A Weakening Global Economy Interrupts Agricultural Trade,” *Amber Waves* 7(2), June 2009, pp. 22-29. <http://www.ers.usda.gov/AmberWaves/June09/Features/WeakEconomy.htm>

Trade Collapse

*[OECD](#), “Agriculture more resilient to global crisis than other sectors,” OECD, Paris, June 17, 2009. http://www.oecd.org/document/30/0,3343,en_2649_37401_43017950_1_1_1_1,00.html

*[Henn, Christian and Brad McDonald](#), “Avoiding Protectionism,” *Finance and Development* 47(1), March 2010, pp. 20-28.

*[IMF](#), “Global Trade: “What’s Behind the Slowdown?” World Economic Outlook (WEO), Chapter 2, International Monetary Fund, Washington DC, October 2016

[Matthieu Bussière, Giovanni Callegari, Fabio Ghironi, Giulia Sestieri, and Norihiko Yamano](#), “Estimating Trade Elasticities: Demand Composition and the Trade Collapse of 2008–2009,” *American Economic Journal: Macroeconomics* 2013, 5(3): 118–151

Euro Crisis

*[Marsh, Bill](#), “It’s All Connected: A Spectator’s Guide to the Euro Crisis,” *New York Times* October 22, 2011. <http://www.nytimes.com/interactive/2011/10/23/sunday-review/an-overview-of-the-euro-crisis.html>

“Europe’s Rescue Plan,” *The Economist*, Oct 29, 2011.
<http://www.economist.com/node/21534849>

*Krugman, P. “Keynes was Right,” *New York Times*, December 29, 2011.
http://www.nytimes.com/2011/12/30/opinion/keynes-was-right.html?_r=1&emc=eta1

[Lane, Philip R.](#) 2012. "The European Sovereign Debt Crisis." *Journal of Economic Perspectives*, 26(3): 49-68.

IMF, “EU to Channel €200 bln to IMF to Strengthen Global Safety Net,” *IMF Survey Magazine: In the News*, December 9, 2011.
<http://www.imf.org/external/pubs/ft/survey/so/2011/NEW120911A.htm>

[IMF](#), “Regional Economic Outlook: Europe Navigating Stormy Waters”, *IMF World Economic and Financial Surveys*, October 2011.

*Shore, Sandy, “Economic Debt worries drive down commodity prices,” Associated Press, July 23, 2012. <http://finance.yahoo.com/news/european-debt-worries-drive-down-194324166.html>

[Kelch, David, Mathew Shane, David Torgerson, Agapi Somwaru](#), “European Financial Imbalances: Implications of the Eurozone Sovereign Debt Problem for U.S. Agricultural Exports,” Outlook Report WRS-1102, ERS, USDA, May 2011.

BBC – Economic data on EU <http://www.bbc.co.uk/go/em/fr/-/news/business-13361930>
Timeline of Euro crisis events <http://www.bbc.co.uk/go/em/fr/-/news/business-13856580>

High Food and Ag Commodity Prices

*[Trostle, Ronald](#), "Global Agricultural Supply and Demand: Factors Contributing to the Recent Increase in Food Commodity Prices," Outlook report WRS-0801, Economic Research Service, USDA, Washington, DC, July 2008 (revised). <http://www.ers.usda.gov/Publications/WRS0801/>

[Trostle, R., D. Marti, S. Rosen and P. Wescott](#), 2011. "Why Have Food Commodity Prices Risen Again?" Outlook Report No. (WRS-1103) 29, ERS, USDA, June 2011.
<http://www.ers.usda.gov/publications/WRS1103/>

[Abbott, Philip, Chris Hurt and Wallace Tyner](#), "What's Driving Food Prices?" Issue report, Farm Foundation, Oak Brook, IL, July 2008.

<http://www.farmfoundation.org/news/templates/template.aspx?articleid=404&zoneid=26>

*[Abbott, Philip, Chris Hurt and Wallace Tyner](#), "What's Driving Food Prices? March 2009 Update" Issue report, Farm Foundation, Oak Brook, IL, March, 2009.

<http://www.farmfoundation.org/webcontent/Whats-Driving-Food-Prices-March-2009-Update-1702.aspx?z=85&a=1702>

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[Whatever Happened to the Food Crisis?](#) *Economist*, July 4, 2009.

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*[Irwin, Scott H. and Dwight R. Sanders](#), "Index Funds, Financialization, and Commodity Futures Markets," *Applied Economics Perspectives and Policy*: December 2010.

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2010 issue highlights improvement with recovery in Food Security Assessment, 2009-10, Outlook Report GFA-21, ERS/USDA, June 2010.

<http://www.ers.usda.gov/Publications/GFA21/>

Commodity Booms

*[Frankel, Jeffrey](#), “The Effect of Monetary Policy on Real Commodity Prices,” *Asset Prices and Monetary Policy*, Editor: John Campbell, University of Chicago Press, Chicago, 2006

[Gaston Gelos and Yulia Ustyugova](#), “Inflation Responses to Commodity Price Shocks – How and Why Do Countries Differ?” IMF Working Paper WP/12/225, September 2012.

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<http://www.ers.usda.gov/AmberWaves/February07/Features/WeakerDollar.htm>

China and Asia

*[Sachs, Jeffrey](#), “Surging Food Prices Mean Global Instability,” *Scientific American*, June 2008.

*[Bryan Lohmar and Fred Gale](#), “Who Will China Feed?” *Amber Waves* 6(3), ERS, USDA, June 2008. <http://www.ers.usda.gov/AmberWaves/June08/Features/ChinaFeed.htm>

[Gale, Fred and Francis Tuan](#), “China Currency Appreciation Could Boost U.S. Agricultural Exports,” WRS-0703, ERS/USDA, Washington DC, August 2007.

<http://www.ers.usda.gov/publications/WRS0703/wrs0703.pdf>

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<http://www.ers.usda.gov/publications/agoutlook/jan2000/ao268e.pdf>

[Abbott, Philip and Finn Tarp](#), “Globalization Crises, Trade and Development in Vietnam,” *Journal of International Commerce and Economic Policy*, 3 (1) February 2012, pp. 1-23.

Globalization and the Macro Environment

Joseph Stiglitz, *Globalization and its Discontents*, Chapters 1 & 2, (Promise of Global Institutions), W.W. Norton & Company, New York, 2002.

* [Basu, Kaushik](#), “Globalization and the Politics of International Finance: The Stiglitz Verdict,” *Journal of Economic Literature* XLI (3), September 2003, pp. 855-899.

*[Rogoff, Kenneth](#), “The IMF Strikes Back,” *Foreign Policy* January/February 2003, pp. 39-46.

<http://www.foreignpolicy.com/Ning/archive/archive/134/rogoff2.qxd.pdf>

*Daniel Yergin and Joseph Stanislaw, *Commanding Heights: The Battle for the World Economy*, PBS Video presentation, April, 2002,

<http://www.pbs.org/wgbh/commandingheights/hi/story/index.html>

Michael Mandelbaum, *The Ideas that Conquered the World*, Chapters 9-11 (The Liberal Theory of History – on Economics), Public Affairs, New York, 2002, pp. 277-352.

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

[Philip Abbott, Thomas Barnebeck Andersen and Finn Tarp](#), "IMF and economic reform in developing countries," *The Quarterly Review of Economics and Finance* 50 (2010) 17–26.

* [Philip Abbott, Mike Boehlje and Otto Doering](#), "Coming to Grips with Globalization," *Choices*, Winter 2001-2002, pp. 43-46. <http://www.choicesmagazine.org/2002-4/2002-4-08.pdf>

[Henry, Peter Blair](#) 2007. "Capital Account Liberalization: Theory, Evidence, and Speculation." *Journal of Economic Literature*, 45(4): 887–935.

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<http://www.unctad.org/Templates/webflyer.asp?docid=4078&intItemID=2976&lang=1&mode=downloads>

Crisis in Macroeconomic Theory?

*[Romer, Paul](#), "The Trouble with Macroeconomics," Delivered January 5, 2016 as the Commons Memorial Lecture of the Omicron Delta Epsilon Society. Forthcoming in *The American Economist*.

*[N. Gregory Mankiw](#), "The Macroeconomist as Scientist and Engineer," *Journal of Economic Perspectives*—Volume 20, Number 4—Fall 2006—Pages 29–46.

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*[Woodford, Michael](#), "Convergence in Macroeconomics: Elements of the New Synthesis," *American Economic Journal: Macroeconomics* 2009, 1:1, 267–279.

Ag Linkages to Macroeconomics

*[David Orden](#), "Recent Macroeconomic Dynamics and Agriculture in Historical Perspective," Invited paper presented at the annual meeting of the Southern Agricultural Economics Association, Orlando Florida, February 2010 and forthcoming in the *Journal of Agricultural and Applied Economics*.

*ERS, USDA "Topics" on Macroeconomics and Agriculture
<http://www.ers.usda.gov/topics/international-markets-trade/macro-economics-agriculture.aspx>

Agricultural Baseline Projections: Macroeconomic Assumptions

<http://www.ers.usda.gov/topics/farm-economy/agricultural-baseline-projections.aspx>

International Macroeconomic Data Set

<http://www.ers.usda.gov/data-products/international-macroeconomic-data-set.aspx>

Agricultural Exchange Rate Data Set

<http://www.ers.usda.gov/data-products/agricultural-exchange-rate-data-set.aspx>

*[Gary Schnitkey](#), “Rising Interest Rates and Farmland Prices,” *Farmdoc Daily* (6):236, December 20, 2016.

[Brent A. Gloy, Michael D. Boehlje, Craig L. Dobbins, Christopher Hurt, and Timothy G. Baker](#), “Are Economic Fundamentals Driving Farmland Values?,” *Choices* 26(2) 2nd quarter, 2011.

[Kevin L. Kliesen and William Poole](#), “Agriculture Outcomes and Monetary Policy Actions: Kissin’ Cousins?” 2000 ASU Agriculture-Business Conference Agriculture 2000: Issues and Alternatives, February 16, 2000.

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[Chapter 2 -- Macro Economy by Deboer, Tyner and Taylor](#)

[Chapter 3 – International Trade by Abbott, Hertel, Masters, Paarlberg, Sanders and Tyner](#)

[Federal Reserve Bank of Cleveland](#), *Economic Trends (The Exchange Rate and the Twin Deficit Problem)*, December 2004.

[Dorfman, J.](#) “Rising Interest Rates Won’t Be Good for Commodity Prices, But It Won’t Be Too Bad Either.” *farmdoc daily* (5):230, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 11, 2015.

Ag Linkages: Reviews and History

*[Abbott, Philip and Alex McCalla](#), “Agriculture in the Macroeconomy: Theory and Measurement,” *Handbook of Agricultural Economics* Vol. 2a, Chapter 31, G. Rausser and B. Gardner, eds. North Holland, Amsterdam, 2001, pp. 1659-1686.

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[T.W. Schultz](#), “Organization for Price Stability,” Chapter 20 in *The Economic Organization of Agriculture*, McGraw Hill, New York, 1953, Chapter 20, pp. 335-366.

Exchange Rates

* [Edward Schuh](#), “The Exchange Rate and US Agriculture,” *American Journal of Agricultural Economics* 56 (1974), pp. 1-13.

*[Hatzenbuehler, Patrick L., Philip C. Abbott, and Kenneth A. Foster](#), “Agricultural Commodity Prices and Exchange Rates under Structural Change,” *Journal of Agricultural and Resource Economics*, 41(2):204–224, 2016.

* [Maurice Schiff and Alberto Valdes](#), “Agriculture and the Macroeconomy, with Emphasis on Developing Countries,” *Handbook of Agricultural Economics*, G. Rausser and B. Gardner, eds. North Holland, Amsterdam, 2001.

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[Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer](#) (2015), "The Next Generation of the Penn World Table" *American Economic Review*, 105(10): 3150-82. available for download at www.ggd.net/pwt

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[Gale, Fred and Francis Tuan](#), “China Currency Appreciation Could Boost U.S. Agricultural Exports,” WRS-0703, ERS/USDA, Washington DC, August 2007.
<http://www.ers.usda.gov/publications/WRS0703/wrs0703.pdf>

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*[Eswar Prasad and Lei Ye](#), “Will the Renminbi Rule?” *Finance & Development* March 2012.

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[Rossi, Barbara](#). 2013. "Exchange Rate Predictability." *Journal of Economic Literature* 51(4): 1063-1119.

II. Open Economy Macroeconomics

Accounting

National Income Accounting

* Abel, Bernanke and Croushore, "The Measurement and Structure of the National Economy," Chapter 2 in *Macroeconomics*.

Balance of Payments and National Accounts

* Abel, Bernanke and Croushore, "Savings and Investment in the Open Economy," *Macroeconomics*, Chapter 5.

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Social Accounting Matrices

Kenneth Reinert and David Roland-Holst, "Social Accounting Matrices," in *Applied Methods for Trade Policy Analysis*, Francois and Reinert, eds., Cambridge University Press, Cambridge, 1997, pp. 94-121.

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<http://www.iariw.org/papers/2000/thorbecke.pdf>

Analyses Based Largely on Accounting Principles

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