

OXFORD REVIEW OF ECONOMIC POLICY

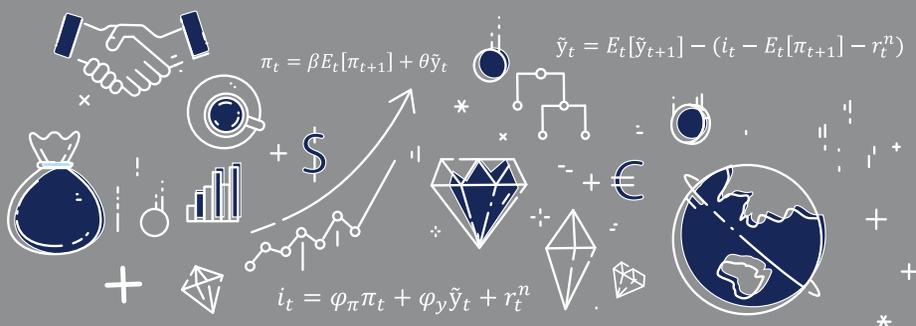
Rebuilding Macroeconomic Theory

EDITED BY DAVID VINES AND SAMUEL WILLS

The global financial crisis led to a crisis in macroeconomics. The need for change is as great as in the 1930s, when the Great Depression led Keynes to write the General Theory. And the challenge is as great as in the 1970s, when inflation led freshwater and saltwater economists to disagree about what to do next. That conflict still haunts us. In response to the present challenge, we launched a Rebuilding Macroeconomic Theory project.

Our authors recommend four main changes to the New Keynesian benchmark model: to emphasize financial frictions, to limit the operation of rational expectations, to include heterogeneous agents, and to devise more appropriate microfoundations. Achieving these objectives requires changes to all the behavioural equations in the model. It is a big task.

As editors, we have learned two more significant things from our project. First, it is time to do away with the microfoundations hegemony. Our discipline should allow more room for, and show more respect for, those engaged in building models for use in economic policy-making. Second, we need more pluralism. It is time to put the religious wars behind us. These are controversial conclusions. We invite our readers to see if they agree.



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