Economics 751 Part I: Macroeconomic Theory

Professor Susanto Basu

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Office: 21 Campanella Way 474
Office Hours: Monday 2-3:30 pm or by appointment
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Overview

The first section of this course will cover consumption and asset pricing. The remainder will be an introduction to business cycle theory with flexible prices. Lectures for 751 Part I will be given January 14-February 25, 2008, with one additional lecture at a time and place to be arranged.

Prerequisites

This is a course for first-year PhD students. It assumes that everyone has had the first-semester macro, micro, math and stats classes.

Requirements

The final will be given in two parts, at the ends of the half-courses taught by Basu and Iacoviello.

Problem sets will be assigned regularly. Students are encouraged to discuss these problems among themselves as long as all make a serious individual effort before doing so.

Final Examination for Part I of 751: Monday, March 9, 10am-12pm

Grades

The overall course grade will be an equally-weighted average of the grades in the final examinations of Part I and Part II.
Problem sets will be graded as check/check-plus/check-minus. The teaching fellow, Mr. Tamas Briglevics, will provide detailed problem set solutions, but will not give extensive comments on individual problem sets.

Readings

Core readings (marked with a *) and further readings are listed under each heading of the course outline. Everyone should carefully read and think about the core readings. The further readings include classic articles, more advanced or detailed treatments of the topics, and background material. Students with a strong interest in macroeconomics in general or in a particular topic should be familiar with these readings.

There is no single textbook for the course. Portions of the following books will be useful:


I. Introduction to Stochastic Macroeconomics: Consumption

A. Consumption

i. Introduction to the Life-Cycle and Permanent-Income Hypotheses

*Romer, *Advanced Macroeconomics*, 7.1

ii. The Euler Equation; Consumption Puzzles; Time Inconsistency

*Romer, *Advanced Macroeconomics*, 7.2-7.3.
*Obstfeld-Rogoff, 1.1
Obstfeld-Rogoff, 2.1-2.3

iii. Liquidity Constraints, Rule of Thumb Consumers

B. Second-Moment Effects: Asset Pricing, Precautionary Saving

i. Consumption CAPM

*Romer, 7.5.
*Blanchard-Fischer, 10.1.
Barsky, “Why Don't the Prices of Stocks and Bonds Move Together?” AER 79 (1989)

ii. Precautionary Saving

*Romer, Advanced Macroeconomics, 7.6

II. Real Models of Business Cycles

A. Introduction and Stylized Facts (1 lecture)


*Romer 5.6.
B. Competitive Equilibrium Business-Cycle Models

i. Overview, Basic Issues, Log-Linearization

*McCandless, ch. 6
Romer 4.2-4.7.
Obstfeld-Rogoff, 7.4 (esp. 7.4.3).

ii. Complete Models and Calibration


iii. Discussion and Evaluation

*Romer, 4.8-4.10.

C. What Do Technology Shocks Do?

D. Externalities and Imperfect Competition: Theory and Evidence


E. Coordination Failures and Multiple Equilibria


F. Macroeconomics and the Labor Market:

   Efficiency Wages, Search, Hysteresis

*Romer, 9.1-9.4, 9.9


*Romer, 9.8

*Hall, “How Much do we Understand about the Modern Recession?”* BPEA (2007)


Blanchard and Katz, “What We Know and Do Not Know About the Natural Rate of Unemployment.” *JEP* 11 (1997).


Romer, 9.6-9.7