Economics 751: Macroeconomic Theory II

Professor Susanto Basu

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Office: 21 Campanella Way 474
Office Hours: Wednesday 1:15-2:45pm and after class
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Overview

This course is divided into three sections. Part I will cover consumption and asset pricing. Part II will introduce business-cycle theory with flexible prices. Part III will cover monetary models and business cycle theory with nominal rigidities.

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, and is concurrently enrolled in second-semester micro and econometrics.

Requirements

There will be a midterm, on a date to be announced, and a final examination. The final examination date and time will be announced by the Director of Graduate Studies early in the spring term.

Problem sets will be assigned regularly. Students are encouraged to discuss these problems among themselves in study groups. Experience shows that students gain the most benefit from the problem sets by making a serious individual effort to do the problems first, and then working collaboratively to clear up difficulties afterwards.

Grades

The overall course grade will depend on the midterm (40%) and final (60%). The midterm score will be discounted if the final shows significant improvement.

Problem sets will not be graded. However, students who do not devote significant time to the problem sets are unlikely to do well in the course exams or in the year-end comprehensive exam.
The teaching fellow 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:


(It is probably worthwhile purchasing the Romer and Walsh texts. We will use only a single chapter of McCandless.)

The following books sometimes provide useful alternative perspectives on the same material:


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.
*Romer, Advanced Macroeconomics, 7.4.
*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


B. Competitive Equilibrium Business-Cycle Models

i. Overview, Basic Issues, Log-Linearization

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
III. General-Equilibrium Models with Money

A. Introduction and Stylized Facts

*Romer 5.6
*Walsh ch. 1

B. Money and Inflation with Flexible Prices

*Walsh ch. 2
Blanchard-Fischer 4.1-4.2, 4.5-4.7
Woodford ch. 2

C. Output and Inflation with Sticky Prices: Models without Capital

*Walsh ch. 8
*Walsh ch. 6 (skim 6.2)
Woodford ch. 3

D. Output and Inflation with Sticky Prices: Models with Capital