

BOSTON COLLEGE  
Department of Economics

EC 705a, Macroeconomic Theory III-a  
Fall 1996

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The texts required for the course are Advanced Macroeconomics by David Romer and Lectures on Macroeconomics by Olivier Blanchard and Stanley Fischer. Additional starred readings are required and will be on reserve in O'Neill Library. Grades will be based on an examination at the end of the module.

1. Trends and Fluctuations in Aggregate Data

\*Romer, Section 4.8.

Blanchard and Fischer, Section 1.1.

\*Nelson, C. and C. Plosser, "Trends and Random Walks in Macroeconomics," JME, September 1982, 10, 139-162.

\*Campbell, J. and N.G. Mankiw, "Are Output Fluctuations Transitory?" QJE, November 1987, 857-880.

\*Blanchard, O. and D. Quah, "The Dynamic Effects of Aggregate Demand and Supply Disturbances," AER, 79, September 1989, 655-673.

2. Consumption

(a) The Classics

Modigliani, F., "Life Cycle, Individual Thrift and the Wealth of Nations," AER, 76-3, June 1986, 297-313.

Friedman, M., A Theory of the Consumption Function (Princeton, N.J.: Princeton University Press, 1957), Chapters II and III.

Modigliani, F., "The Life Cycle Hypothesis of Saving, the Demand for Wealth and the Supply of Capital," Social Research, no. 2, 1966.

(b) Consumption and Portfolio Choice: Theoretical Foundations

\*Blanchard and Fischer, Sections 6.1-6.2.

\*Deaton, Chapter 1

Samuelson, P., "Lifetime Portfolio Selection by Dynamic Stochastic Programming," R.E.Stat, 51, August 1969, 239-246.

Merton, R., "Optimum Consumption and Portfolio Rules in a Continuous Time Model," JET, December 1971, 373-413.

(c) Consumption and Permanent Income

\*Romer, Sections 7.1-7.4.

\*Deaton, Chapters 3-4

\*Hall, R., "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis," JPE, December 1978, 971-987.

\*Flavin, M., "The Adjustment of Consumption to Changing Expectations about Future Income," JPE, 89, October 1981, 974-1009.

\*Hayashi, F., "The Permanent Income Hypothesis: Estimation and Testing by Instrumental Variables," JPE, October 1982, 895-916.

Campbell, J., and A. Deaton, "Why is Consumption So Smooth?" Review of Economic Studies, 56, 1989, 357-374.

West, K., "The Insensitivity of Consumption to News About Income," Journal of Monetary Economics, 21, 1988, 17-33.

\*Mankiw, N.G., "Hall's Consumption Hypothesis and Durable Goods," JME, 10, November 1982, 417-425.

\*Bernanke, B., "Adjustment Costs, Durables, and Aggregate Consumption," Journal of Monetary Economics, 15, January 1985, 41-68.

Caballero, R., "Expenditure on Durable Goods: A Case for Slow Adjustment," Quarterly Journal of Economics, 105, 1990, 727-43.

\*Campbell, J. and N.G. Mankiw, "Permanent Income, Current Income, and Consumption," Journal of Business and Economic Statistics, 8, July 1990, 265-279.

\*Campbell, J. and N.G. Mankiw, "Consumption, Income, and Interest Rates: Reinterpreting the Time Series Evidence," NBER Macroeconomics Annual, 1989, 185-246.

Campbell, J., "Does Saving Anticipate Declining Labor Income? An Alternative Test of the Permanent Income Hypothesis," Econometrica, 55, 1987, 1249-1273.

(d) Micro Data and Liquidity Constraints

\*Deaton, Chapters 5 and 6.2.

\*Hayashi, F., "The Effect of Liquidity Constraints on Consumption: A Cross-Sectional Analysis," QJE, 100, February 1985, 183-206.

\*Zeldes, S., "Consumption and Liquidity Constraints: An Empirical Investigation," JPE, 97, April 1989.

Hubbard, R.G. and K. Judd, "Liquidity Constraints, Fiscal Policy, and Consumption," BPEA 1986:1.

(e) Precautionary Saving

\*Romer, Section 7.6.

\*Deaton, Chapter 6.1.

\*Blanchard, O. and N.G. Mankiw, "Consumption: Beyond Certainty Equivalence," American Economic Review, 78, May 1988, 173-77.

Caballero, R., "Consumption Puzzles and Precautionary Savings," Journal of Monetary Economics, 25, January 1990, 113-36.

Kimball, M., "Precautionary Saving in the Small and in the Large," Econometrica, 58, January 1990, 53-73.

\*Dynan, K., "How Prudent are Consumers?" Journal of Political Economy, 1993.

(f) Intertemporal Substitution

\*Deaton, Chapter 2.2.

\*Mankiw, N.G., Rotemberg, J. and L. Summers, "Intertemporal Substitution in Macroeconomics," QJE, February 1985, 225-252.

\*Hall, R., "Intertemporal Substitution in Consumption," JPE, 96, April 1988, 339-357.

Altonji, J., "Intertemporal Substitution in Labor Supply: Evidence from Micro Data," JPE, 94, June 1986, S176-S213.

Weil, P., "Nonexpected Utility in Macroeconomics," QJE, 105, February 1990, 29-42.

(g) Consumption-based Asset Pricing Models

\*Romer, Section 7.5.

\*Blanchard and Fischer, Section 10.1.

Mankiw, N.G., "The Equity Premium and the Concentration of Aggregate Shocks," Journal of Financial Economics, 17, September 1986, 211-219.

Mankiw, N.G. and S. Zeldes, "The Consumption of Stockholders and Nonstockholders," Journal of Financial Economics, 29, March 1991, 97-112.

Epstein, L. and S. Zin, "Substitution, Risk Aversion, and the Temporal Behavior of Consumption and Asset Returns: A Theoretical Framework," Econometrica, 57, July 1989, 937-69.

Constantinides, G., "Habit Formation: A Resolution of the Equity Premium Puzzle," Journal of Political Economy, 98, 1990, 519-43.

(h) Saving, Wealth and Fiscal Policy

\*Deaton, Chapter 2.1.

Summers, L., "Capital Taxation and Accumulation in a Life Cycle Model," AER, September 1981, 533-644.

Ando, A. and A. Kennickell, "How Much (or little) Life Cycle is There in Microdata? The Cases of U.S. and Japan," in Macroeconomics and Finance, R. Dornbusch and S. Fischer, eds., MIT Press, 1987, 159-228.

Hayashi, F., "Why is Japan's Saving Rate So Apparently High?" NBER Macroeconomics Annual 1986, 147-234.

\*Bernheim, D., "Ricardian Equivalence: An Evaluation of Theory and Evidence," in NBER Macroeconomics Annual 1987, S. Fischer, ed., 263-315.

\*Wilcox, D., "Social Security Benefits, Consumption Expenditure, and the Life Cycle Hypothesis," JPE, 97, April 1989, 288-304.

\*Wilcox, D., "The Sustainability of Government Deficit: Implications of the Present-Value Borrowing Constraint," JMCB, 21, August 1989, 291-306.

### 3. Investment

#### (a) The Classics

\*Romer, Section 8.1.

Hall, R. and D. Jorgenson, "Tax Policy and Investment Behavior," AER, 57, June 1967, 391-414.

Clark, P., "Investment in the 1970s: Theory, Performance, and Prediction," Brookings Papers on Economic Activity, 1979:1, 73-124.

#### (b) Adjustment Costs and Tobin's Q

\*Romer, Sections 8.2-8.5.

\*Summers, L., "Taxation and Corporate Investment: A q-Theory Approach," Brookings Papers on Economic Activity, 1981:1, 67-127.

#### (c) Uncertainty and Irreversibility

\*Romer, Section 8.6

Bernanke, B., "Irreversibility, Uncertainty, and Cyclical Investment," QJE, 98, February, 1993, 85-106.

Dixit, A. and R. Pindyck, Investment under Uncertainty, Princeton: Princeton University Press, 1994.

#### (d) Financial Market Imperfections

\*Romer, Sections 8.7-8.8.

Bernanke, B. and M. Gertler, "Agency Costs, Net Worth, and Business Fluctuations," AER, 79, March 1989, 14-31.

Bernanke, B. and C. Lown, "The Credit Crunch," Brookings Papers on Economic Activity, 1991:2, 205-247.