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    This is a course in empirical macroeconomics. Part A looks at models for the demand for and supply of money. Part B considers empirical attempts at identifying the effects of money on output. Part C discusses some important real business cycle models and numerical methods used to solve those models. The best way to learn Part C is by doing and computer programming in GAUSS will be required at some point. The course will be based on the relevant articles in the literature as cited in this outline. Required readings are marked with a (*). There is no required textbook, but when in doubt look up

Blanchard, O.J. and Fischer, S. (1990), *Lectures of Macroeconomics,* M.I.T. Press.

McCallum,B.T. (1989), *Monetary Economics: Theory and Policy.* Macmillan Publishing   Company, New York.

Mishkin, F. (1992), *The Economics of Money, Banking, and Financial Markets,* Third edn,   Harper Collins Publishers, New York.

1 Evaluation

Problem Sets (one per month)   30%
Mid Term (On Part B)   30%
Take Home Exam (On Part C, due Dec. 15)   40%

Part A:
1 The Demand for Money

Mishkin (1992) Chapters 23-24.

*Baumol, W.J. (1952), The Transactions Demand For Cash: An Inventory Theoretic Approach, *Quarterly Journal Of Economics* **66,** 545-556.

Diamond, P. National Debt In a Neoclassical Economy, *American Economic Review* **55:5,** 1126-50.

Frankel, J. and Jovanovic, B. (1980), On Transactions and Precautionary Demand for Money, *Quarterly Journal of Economics* **95,** 25-43.

Friedman, M. (1956), The Qauntity Theory of Money: A Reinstatement, *in* M. Friedman (ed.), *Studies in the Quantity Theory of Money,* University of Chicago Press.

*Goldfeld, S.M. and Sichel, D. (1990), The Demand For Money, *in* B. Friedman and F. Hahn (eds). *Handbook of Monetary Economics,* North Holland.

Gordan, R.J. (1984), The Short Run Demand For Money a Reconsideration, *Journal of Money Credit adn Banking.*

Gray, M. and Parkin, J. M. (1972). Portfolio Diversificaiton as Optimal Precautionary behavoir, *in* M. Morshima (ed.), *Theory of Demand, Real and Monetary.* Clarendon.

Hendry, D. F. and Ecrisson, N. (1991), An Econometric analysis of U.K. Money Demand in *Monetary trends in the United States and the United Kingdom* by Milton Friedman adn Anna J. Schwartz, *American Economic Review* **81,** 8-38

Judd, J.P. and Scadding, J.L. (1982), The Search For a Stable Money Demand Function, *Journal of Economic Literature.*

*Kiyotaki, N. and Wright, R. (1989), On Money as a Medium of Exchange, *Journal of Political Economy* **97,** 927-954.

Miller, M.H. and Orr, D. (1996), A Model Demand for Money By Firms, *Quarterly Journal of Economics.*

*Sidrauski, M. (1967), Rational Choice and Patterns of Growth In a Monetary Economy. *American Economic Review papers and Proceedings* pp. 534-44.

Tobin, J. (1956), The Interest Elasticity of Transactions Demand for Cash, *Review of Economics and Stattistics.*

Tobin, J. (1958). Liquidity Preferences as Behavior Towards Risk. *Review of Economic Studies* **25,** 56-86.

2. The Supply of Money

Kydland, F. and Prescott, E. (1977), Rules rather than Discretion: The Inconsistency fo Optimal Rules, *Journal of Political Economy* **85,** 473-91.

*Poole, W. (1970), Optimal Choice of Monetary Policy Instruments in a Simple Stochastic Macro Model, *Quarterly Journal of Economics* **84,** 197-216.

Sargent, T. (1971), A Note on the Accerlerationist Controversy, *Journal of Moneu, Credit, and Banking.*

Sargent, T. and N,W. (1975), Rational Expectations. The Optimal Monetary Instruments and The Optimal Money Supply Rule, *Journal of Political Economy* **83,** 241-54.

*The Federal Reserve System: Purposes and Functions, Board of Governors, Washington D.C. 1994.

B Empirical Macroeconomics

*Cochrane, J.H. (1994b), Shocks, NBER Working Paper No. 4689.

Frierdman, B. and Kuttner, K. (1992), Why Does the Paper Bill Spread Predict Real economic Activity, *in* J. Stock and M Watson (eds), *New Research in Business Cylcles, Theory and Practice of Econometrics,* Wiley, New York.

*Friedman, B. and Kuttner, K. (1993), Another Look at the Evidence on Money-Income Casuality, *Journal of Econometrics* **57**, 189-203.

*Gordan, D,B. and Leeper, E.M. (1994), The Dynamic Impacts of Monetary Policy: An Exercise in Tenative Identification, *Journal of Political Economy* pp. 1228-1247.

*Leeper, E.M. and Gordon, D.B. (1992), In Search of Liquidity Effect, *Journal of Monetary Economics* **29**, 341-69.

Romer, D. and Romer, C. (1989), Does Moetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz, *NBER Macroeconomics Annual,* Vol 4, M.I.T. Press, pp. 121-69.

Romer, D. and Romer, C. (1990), New Evidence on the Monetary Transmission Mechanism, *Brookings Papers on Economic Activity* 1, 149-98.

Sims,C. (1992), Interpreting the Macroeconomic Time Series Facts: The Effects of Monetary Policy, *European Economic Review* pp. 975-1000.

Sims, C.A. and Zha, T. (1996), Error Bands for Impulse Responses, *Reserve Bank of Atlanta Working Paper.*

*Sims,C. (1992), Interpreting the Macroeconomic Time Series Facts: The Effects of Monetary Policy, *European Economic Review* pp. 975-1000.

*Strongin, S. (1995) "The Identifycation of Moneary Policy Disturbances: Explaining the Liquidity Puzzle," Journal of Monetary Economics, 35, June, 463-97.

*Christiano, Eichenbaum, and Evans (1996), "The Effects of Monetary Policy Shocks: Evidence from the Flow of Funds", Review of Economics and Statistics, 78, 16-34.

*Bernanke B. and I. Mihov (1995), "Measuring Monetary Policy", NBER WP 5145.

*Leeper, E. and C. Sims, and T. Zha (1996), "What does Monetary Policy Do?", mimeo, Yale University.

C. Real Business Cycle Models

1. Models

Cooley, T. F. and Hansen, G. D., Money and the Business Cycle, in *Frontiers of Business Cycle Research*, Thomas F. Cooley, editor.

Cooley, T. F. and Prescott, E. C., Economic Growth and Business Cycles, in *Frontiers of Business Cycle Research*, Thomas F. Cooley, editor.

*Hansen, G. D. (1985), Indivisible Labor and The Business Cycle, *Journal of Monetary Economics* **16**, pp. 309 - 327.

Imrohoroglu, A. (1989), Cost of Business Cycles with Indivisibilities and Liquidity Constraints, *Journal of Political Economy* **97**, pp. 1364 - 1383.

*King, R. G. and Plosser, C. I. (1984), Money, Credit, and Prices in a Real Business Cycle, *The American Economic Review* **74**, pp. 363 - 380.

*Kydland, F. E. and Prescott, E. C. (1982), Time to Build and Aggregate Fluctuations, *Econometrica* **50**, pp. 1345 - 1368.

Long, J. B. Jr. and Plosser, C. I. (1983), Real Business Cycles, *Journal of Political Economy* **91**, pp. 39 - 69.

2: Solution Methods:

*Ritter, J. "An Outsider Guide to Real Business Cycle Modeling", Federal Reserve Bank of St. Louis Review, March/April 1995.

*Uhlig, H. "A Toolkit for Analyzing Nonlinear Dynamic Stochastic Models Easily", Federal Reserve Bank of Minneapolis Discussion Paper 101.

*Hansen, G. D. and E. Prescott, Recursive Methods for Computing Equilibria of Business Cycle Models, Chapter 2, *Frontiers of Business Cycle Research*, Thomas F. Cooley, editor.

Den Haan, W. J. and Marcet, A. (1995), "Solving Stochastic Growth Model By Parameterizing Expectations", Journal of Business and Economic Statistics, 8, 31-34.

Deaton, A. S. and G. Laroque (1995), "Estimating a Non-linear Rational Expectations Commodity Price Model with Unobservable State Variables", Journal of Applied Econometrics, 10, S9-S40.

*Deaton, A. S. (1991), "Saving and Liquidity Constraints", Econometrica 59, 1221-48.