

BOSTON COLLEGE  
Department of Economics

EC 751a, Macroeconomic Theory IIa  
Spring 1998

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Carney 333, x3688

Starred readings are required and will be on reserve in O'Neill Library or in the background texts. The background texts, Advanced Macroeconomics by David Romer and Lectures on Macroeconomics by Olivier Blanchard and Stanley Fischer, are available for purchase at the bookstore.

1. 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, A., Understanding Consumption, Oxford University Press, 1992, 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," OJE, 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., "Unexpected Utility in Macroeconomics," QJE, 105, February 1990, 29-42.

2. Asset Pricing

\*Romer, Section 7.5.

\*Blanchard and Fischer, Section 10.1.

\*Mankiw, N.G., and M. Shapiro, "Risk and Return: Consumption Beta versus Market Beta," Review of Economics and Statistics, 1986, 452-459.

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.

\*Mankiw, N.G., "The Term Structure of Interest Rates Revisited," Brookings Papers on Economic Activity, 1:1986, 61-96.

Shiller, R.J., "The Term Structure of Interest Rates," in Handbook of Monetary Economics, Vol. 1, B.Friedman and F Hahn, eds., Elsevier, 1990.

3. 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.