

Economics 751:02
Spring 1999
Macroeconomics Theory
Professor Haralabos E. Gakidis
<http://www2.bc.edu/~gakidis>

- Class meets Monday/Wednesday 10am-12pm, Fulton Hall 425
- Final class will be held on Monday, May 3, 1999
- Tentatively, final exam is scheduled for Friday, May 14, 1999, 9am. Room TBA.
- TA: Jiangzhuo Chen, chenjt@bc.edu
- Problem Sets with solutions will be posted periodically on the class web site. You are not expected to turn them in, but you will discuss the solutions with your TA in recitation.

Reading List

General Note: some of the papers listed as mimeos or working papers may have been published, too. Check with EconLit (now available through the Web at BC).

1 Slopes and Levels: The basics, LCH, Precautionary Savings

1. * Deaton, A., *Understanding Consumption*, Clarendon Press, Oxford 1992. Chapters 1 and 2.
2. * Blanchard, O. and S. Fischer, *Lectures on Macroeconomics*, MIT Press, 1989, Section 6-2.
3. Modigliani, F., "Life Cycle, Individual Thrift and the Wealth of Nations," *American Economic Review*, June 1983, 297-313.
4. Friedman, M., *A Theory of the Consumption Function*, Princeton University Press, 1957, Chapters 1 and 2.
5. Summers, L., "Capital Taxation and Accumulation in a Life Cycle Model," *American Economic Review* 1981, 533~544.
6. * Modigliani, F., "The Role of Intergenerational Transfers and Life Cycle Saving in the Accumulation of Wealth," *Journal of Economic Perspectives*, Spring 1988, 15-40. See Kotlikoff's rejoinder, 41-58.
7. Laitner, J., "New Evidence on Altruism: A Study of TIAA-CREF Retirees," Minneapolis FED DP #86, May 1993.
8. Caballero, R.J., "Consumption and Precautionary Savings: Empirical Implications," *Journal of Monetary Economics* 25, January 1990, 113-136.
9. * Kimball, M., "Precautionary Saving in the Small and in the Large," *Econometrica*, 58, January 1990,

53~73.

10. Caballero, R.J., "Earnings Uncertainty and Aggregate Wealth Accumulation," *American Economic Review* 81-4 September 1991, 85~871.
11. Dynan, K.E., "How Prudent Are Consumers?" *Journal of Political Economy* 6-101, December ~93.
12. Hubbard G., T.Skinner and S.Zeldes, "The Importance of Precautionary Motives in Explaining Individual and Aggregate Saving," NBER WP # 4516.
13. Aiyagari, S.R., "Uninsured Idiosyncratic Risk and Aggregate Saving," mimeo Minneapolis FED, August 1992.
14. Carroll, C. and A. Samwick, "The Nature and Magnitude of Precautionary Wealth," mimeo MIT, March 1992.

2 Aggregate Consumption Fluctuations

1. * Deaton, A., *Understanding Consumption*, Clarendon Press, Oxford 1992 Chapters 3, 4 and 5.
2. Hall, R.E., "Stochastic Implications of the Life Cycle Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, December 1978.
3. Campbell, J.Y., and A. Deaton, "Why is Consumption so Smooth?" *Review of Economic Studies* 56, 1989, 357-374.
4. Campbell, J.Y., "Does Saving Anticipate Declining Labor Income? An Alternative Test of the PIH," *Econometrica* 55, 1249-1273.
5. Flavin, M., "The Excess Smoothness of Consumption: Identification and Interpretation," *Review of Economic Studies* 60-3, July 1993, 651-666.
6. Hall, R.E., "Consumption," Chapter 4 in *Modern Business Cycle Theory*, edited by R.J. Barro, Harvard U.P. 1989

3. Liquidity Constraints and Buffer-Stock Models

1. *Deaton, A., *Understanding Consumption* Clarendon Press, Oxford 1992. Chapter 6.
2. Hall, R.E. and F.S. Mishkin, "The Sensitivity of Consumption to Transitory Income: Estimates from Panel Data on Households," *Econometrica* 50, 1982, 461-480.
3. Hajivassiliou, V.A. and Y.M. Ioannides, "Dynamic Switching Regression Models of the Euler

Equation: Consumption and Liquidity Constraints," mimeo Yale, April 1991

4. Hayashi, F., "The Permanent Income Hypothesis: Estimation and Testing by Instrumental Variables," *Journal of Political Economy*, October 1982, 895-916.
5. Campbell, J. and N.G. Mankiw, "Consumption, Income and Interest Rates: Reinterpreting the Time Series Evidence," *NBER Macroeconomics Annual*, 1989, 185-216.
6. Hayashi, F., "Tests for Liquidity Constraints: A Critical Survey," NBER WP # 1720, October 1985.
7. Zeldes, S.P., "Consumption and Liquidity Constraints: an empirical investigation," *Journal of Political Economy* 97, 1989, 305-346.
8. Attanasio, O.P., "The Intertemporal Allocation of Consumption: Theory and Evidence," NBER WP # 4811, July 1994.
9. * Sargent, T. *Dynamic Macroeconomic Theory* Harvard Press, 1987, Chapter 1.
10. Judd, K.L., "Numerical Methods in Economics," mimeo, December 1991, Chapter 12.
11. * Deaton, A., "Saving and Liquidity Constraints," *Econometrica*, September 1991, 1221-1248.
12. Carroll, C., "The Buffer-Stock Theory of Saving: Some Macroeconomic Evidence," *Brookings Papers on Economic Activity*, 1992, 61-156.
13. Laitner, J., "Random Earnings Differences, Lifetime Liquidity Constraints, and Altruistic Intergenerational Transfers," *Journal of Economic Theory*, 1993.
14. Blanchard, O.J., "Consumption and the Recession of 1990-1991," *American Economic Review - Papers and Proceedings*, May 1993, 27~274.

4. Portfolio Choice and Asset Pricing

1. * Blanchard, O. and S. Fischer, op.cit., section 10.1
2. Merton, Robert C. *Continuous Time Finance*, Blackwell, 1990, Chapter 2.
3. Sharpe, W., "Portfolio Theory and Capital Markets," McGraw Hill, 45.
4. * Lucas, R.E., "Asset Prices in an Exchange Economy," *Econometrica*, November 1978, 142~1445.
5. Sargent, T.J., op.cit, Chapter 3.
6. * Hansen, L.P. and K.J. Singleton, "Stochastic Consumption, Risk Aversion, and the Temporal

Behavior of Asset Returns," *Journal of Political Economy*, 1983, 249-265.

7. * Mehra R., and E. Prescott, "The Equity Premium: a Puzzle," *Journal of Monetary Economics*, 1985, 14~162.
8. * Blanchard, O.J., "Movements in the Equity Premium," mimeo MIT, July 1993.
9. Cochrane, J.H. and L.P. Hansen, "A~ set Pricing Explorations for Macroeconomists," *NBER Macroeconomics Annual 1992*, 115-182 (including discussions by J. Campbell and by P. Weil).
10. Campbell, J.Y. and R.J. Shiller, "Cointegration and Tests of Present Value Models," *Journal of Political Economy* 95-5, October 1987.
11. Shiller, R., *Market Volatility*, MIT Press, Chapter 4.

5 Durable Goods

1. Mankiw, N.G., "Hall's Consumption Hypothesis and Durable Goods," *Journal of Monetary Economics* 10, November 1982, 417-425.
2. Caballero, R.J., "Expenditure on Durable Goods: A Case for Slow Adjustment," *Quarterly Journal of Economics*, February 1990, 2942.
3. Grossman, S.J. and G. Laroque, "Asset Pricing and Optimal Portfolio Choice in the Presence of Illiquid Durable Consumption Goods," *Econometrica* 58, January 1990, 25-51.
4. Bertola, G. and R.J. Caballero, "Kinked Adjustment Costs and Aggregate Dynamics," *NBER Macroeconomics Annual 1990*, 237-295.
5. * Caballero, R.J., "Durable Goods: An explanation for their Slow Adjustment," *Journal of Political Economy* 101-2, April 1993, 351-384.

6 Investment: Neo-classical theory

1. Hall, R.E. and D. Jorgenson, "Tax Policy and Investment Behavior," *American Economic Review* 57, June 1957, 391-414
2. * Clark, P., "Investment in the 1970's: Theory, Performance and Prediction," *Brookings Paper of Economic Activity*, 1979-1, 73-124.
3. Shapiro, M. "Investment, Output, and the Cost of Capital," *Brookings Paper of Economic Activity*, 198~1, 111-152. Blanchard's comment.
4. Pindyck, R. and J. Rotemberg, "Dynamic Factor Demand Functions Under Rational Expectations," *Scandinavian Journal of Economics*, 1983, 223-238.

5. Chirinko, R.S., "Business Fixed Investment Spending: A Critical Survey of Modelling Strategies, Empirical Results, and Policy Implications," *Journal of Economic Literature* 31, December 1993, 187.
6. Caballero, R.J., "Small Sample Bias and Adjustment Costs," mimeo 1991.
7. Cummins, J.G., K. A. Hassett and R. G. Hubbard, "A Reconsideration of Investment behavior using Tax Reforms as Natural Experiments," mimeo, August 1994.
8. Blanchard, O. J., C. Bhee, and L. Summers, "The Stock Market, Profit, and Investment," *Quarterly Journal of Economics*, February 1993.

7 q-theory

1. * Blanchard, O.J. and S. Fischer, op.cit Sections 2.3 and 6.3.
2. Tobin, J., "A General Equilibrium Approach to Monetary Theory," *Journal of Money, Credit and Banking* 1, 1969.
3. Abel, A.B., "Optimal Investment Under Uncertainty," *American Economic Review* 73, March.
4. Summers, L.H., "Taxation and Corporate Investment: A q-theory Approach," *Brookings Paper of Economic Activity*.
5. * Hayashi, F., "Tobin's Marginal Q and Average Q: A Neoclassical Interpretation," *Econometrica*, January 1982.
6. * Abel, A. and O.J. Blanchard, "The Present Value of Profits and Cyclical Movements in Investment," *Econometrica*, March 1986, 249-273.

8 Credit Constraints and Investment

1. Fazzari, S. Hubbard, R.G. and B.C. Petersen, "Financing Constraints and Corporate Investment," *Brookings Papers of Economic Activity* 1988.
2. Hoshi, T. Kashyap, A. and D. Sharfstein, "Corporate Structure, Liquidity and Investment: Evidence from Japanese Industrial Groups," *Quarterly Journal of Economics* 106, 1991.
3. * Hubbard, R.G. and A.K. Kashyap, "Internal Net Worth and the Investment Process: An Application to U.S. Agriculture," *Journal of Political Economy* 100-3, June 1992, 50~534.
4. Hart, O., "Theories of Optimal Capital Structure: A Principal-Agent Perspective," *Brookings Discussion* 91-2, March 1991.

5. Myers, S. and N. Majluf, "Corporate Financing and Investment Decisions when Firms have Information that Investors do not have", *Journal of Financial Economics*, 1984,187-221.
6. Bernanke, B., M. Gertler, and S. Gilchrist, "The Financial Accelerator and the Flight to Quality," NBER WP # 4789, July 1994.

9 Lumpy Investment, Irreversibility and Aggregation

1. Arrow, K.J., "Optimal Capital Policy with Irreversible Investment," in *Value, Capital and Growth, Essays in Honor of Sir John Hicks*, 1968.
- 2.* Dixit, A.K. and R.S. Pindyck, "Investment under Uncertainty" mimeo MIT 1993, Chapter 2.
3. Bernanke, B.S., "Irreversibility, Uncertainty, and Cyclical Investment," *Quarterly Journal of Economics* 98, February 1983.
4. Pindyck, R.S., "Irreversible Investment, Capacity Choice, and the Value of the Firm," *American Economic Review* 79, December 1988.
5. Dixit, A.K., "Entry and Exit Decisions under Uncertainty," *Journal of Political Economy* 97, June 1989.
6. Leahy, J., "Investment in Competitive Equilibrium: The Optimality of Myopic Behavior," mimeo Harvard, 1993.
7. Bertola, G. and R. J. Caballero, "Irreversibility and Aggregate Investment," *Review of Economic Studies*, April 1994.223-246.
8. Caballero, R.J. and E.M.R.A. Engel, "Explaining U.S. Manufacturing Investment Dynamics: A Generalized (S, s) Approach," mimeo MIT, 1993.