

**Advanced Macroeconomic Theory**  
**Economics 617: Section A**  
**Fall 2006**

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Office hrs: 9:30-12:00 on Mondays & 12:00 - 2:30 on Wednesdays  
*Other times by appointment only*

**Course Objectives**

The primary purpose of this course is to develop a thorough understanding of the forces that shape the time path of key macroeconomic variables such as the rate of inflation, interest rates, national income, employment, consumption, investment, and the rate of economic growth. In furtherance of this objective, we will develop theoretical models or frameworks within which critical macroeconomic issues such as the macroeconomic effects of policy and non-policy shocks may be evaluated. In addition, we will focus much attention on explaining the roles these shocks play in generating business cycle phenomena.

**Class Participation**

Reading assignments for forthcoming classes will typically be indicated ahead of time. I will conduct lectures and/or class discussions under the assumption that all members of the class have read the required material and are ready to engage in intelligent conversation about it. As a graduate student you will be expected to read lots of background material that may not be covered in class but that is indispensable to developing perspective on macroeconomic theory. Clearly, the quality and depth of lectures and discussions will depend on your commitment to mastering the issues addressed in the course. You are strongly encouraged to discuss class material with your classmates. As budding professionals it is hoped that your long-term development will be your primary concern. Consequently, you will be expected to bring an inquiring or investigative mind to your study of macroeconomics which should lead you to immerse yourself in macroeconomics beyond the textbook, assigned materials, and class discussion.

In addition to the foregoing, I will assign problems that are germane to forthcoming lectures. During the lecture I may call upon any member of the class to explain how the issue(s) raised in the assigned problem(s) is relevant to class discussion. Just over eleven percent (11%) of your grade will be based upon my perception of the quality of your participation in class.

## Required Text

Third Edition of Advanced Macroeconomics by David Romer

## Background Text

Fifth edition of Macroeconomics by Robert J. Barro

## Exams

You will be required to take two semester exams and a final exam. Each of these exams will be worth 100 points. Each exam will be comprised of a mixture of short and long essay questions. The tentative date for the first exam is *Thursday, October 12th, 2006*.

## Papers

You will be required to write two short papers. I will elaborate on this requirement in class.

## Grade Determination

Students will have the opportunity to earn a maximum of 450-points. These points will be distributed as follows;

Semester Exams	200
Two Short Papers	100
Final Exam	100
Class Participation	50
Total Points Possible	450

## Policy on Make-up Exams

Make-ups will be given only under extremely extenuating circumstances such as the death of a family member or documented personal illness. In other situations, I will make a judgment as to whether the situation described to me constitutes an extremely extenuating circumstance. In all cases, you are encouraged to discuss your situation with me if further clarification is needed

## Policy on Cellular Phones

**All cell phones brought to class MUST be turned off. If you have trouble remembering to turn off your cell phone, please do not bring it to class. Repeated failure to comply with this directive will be viewed as disruptive and will trigger University sanctions associated with disruptive behavior**

## Topical Outline and Literature

### *Generalized Intertemporal Optimizing Behavior (Barro chapters 2 and 3)*

Alogoskoufis, George S., "On Intertemporal Substitution and Aggregate Labor Supply" Journal of Political Economy 95 (October 1987): pp. 938-960.

Cheng, Ing-Haw and French, Eric, "The Effect of the Run-Up in the Stock Market on Labor Supply" Economic Perspectives (Fourth Quarter, 2000): pp. 48-65. Federal Reserve Bank of Chicago.

Dutkowsky, Donald H. and Dunsky, Robert M., "Intertemporal Substitution, Money, and Aggregate Labor Supply" Journal of Money, Credit, and Banking 28 (May 1996): 216-232.

Mankiw, Gregory N., Rotemberg, Julio J., and Summers, Lawrence H., "Intertemporal Substitution in Macroeconomics" Quarterly Journal of Economics 100 (February 1985): pp. 225-251.

### *Consumption (Barro Chapter 3, Romer Chapter 7)*

Campbell, John Y., "Asset Prices, Consumption, and the Business Cycle." in Handbook of Macroeconomics ; Vol 1C (pp 1231-1303) edited by J.B. Taylor and M Woodford.

Carroll, Christopher D., "A Theory of the Consumption Function, With and Without Liquidity Constraints" Journal of Economic Perspectives 15 (Summer 2001): 23-45.

Cochrane, John H., 2001. Asset Pricing. (Chapter One) Princeton NJ: Princeton University Press.

Deaton, Angus. 1992. Understanding Consumption New York: Oxford University Press.

Hall, Robert E., "Intertemporal Substitution in Consumption" Journal of Political Economy 96 (April 1988): pp. 339-357.

Zeldes, Stephen P., "Consumption and Liquidity Constraints: An Empirical Investigation." Journal of Political Economy 97 (April 1989): 305-346.

### *Investment Demand (Romer chapter 8 ; Barro chapter 9)*

Blinder, Alan S., and Maccini, Louis J., "Taking Stock: A Critical Assessment of Recent Research on Inventories" Journal of Economic Perspectives 5 (1991): 73-96.

Hubbard, Glenn R. "Capital-Market Imperfections and Investment" Journal of Economic Literature 36 (March 1998): pp. 193-225.

Kashyap, Anil K., Lamont, Owen A., and Stein, Jeremy C., "Credit Conditions and the Cyclical Behavior of Inventories" Quarterly Journal of Economics (August 1994): 565-592.

**First Exam: Thursday October 12, 2005**

***Economic Growth (Romer chapter 1; Barro Chapter 10)***

Becsi, Zsolt, and Wang, Ping, "Financial Development and Growth" Economic Review 82 (Fourth Quarter, 1997): pp. 46-62. Federal Reserve Bank of Atlanta.

Jappelli, Tullio, and Pagano, Marco. "Saving, Growth, and Liquidity Constraints." Quarterly Journal of Economics 109 (February 1994):83-109.

Khan, Abuhik, "The Finance and Growth Nexus" Business Review (January/ February, 2000): pp. 3-14. Federal Reserve Bank of Philadelphia.

***Macroeconomic Facts***

Stock, James H., and Watson, Mark W., "Business Cycle Fluctuations in Macroeconomic Time Series" in Handbook of Macroeconomics ; Vol 1A (pp 3-64) edited by J.B. Taylor and M Woodford.

***Real Business Cycles (Romer chapter 4; Barro chapters 5 & 9)***

Mankiw, Gregory N., "Real Business Cycles: A New Keynesian Perspective" Journal of Economic Perspectives 3, (Summer, 1989): 79-90.

Plosser, Charles I. "Understanding Real Business Cycles," Journal of Economic Perspectives 3 (Summer,1989): pp. 51-77

***Keynesian Business Cycles and Incomplete Nominal Adjustment (Romer chapters 5&6; Barro chapters 18,19, & 20)***

Mankiw, Gregory N., "Real Business Cycles: A New Keynesian Perspective" Journal of Economic Perspectives 3, (Summer, 1989): 79-90.

Plosser, Charles I. "Understanding Real Business Cycles," Journal of Economic Perspectives 3 (Summer,1989): pp. 51-77.

**Second Exam: Thursday November 16, 2006**

***Money, Inflation, and Interest Rates ( Romer Chapter 10; Barro Chapters 7 & 8;)***

Aiyagari, S. Rao, "Deflating the Case for Zero Inflation" Quarterly Review 14, (Summer 1990): 2-11. Federal Reserve Bank of Minneapolis.

Boskin, Michael, and Others, "Consumer Prices, The Consumer Price Index, and the Costs of Living" Journal of Economic Perspectives 12 (Winter 1998): pp. 3-26.

Delong, Bradford J., "Should We Fear Deflation?" Brookings Papers on Economic Activity 1999:1 pp. 225-252.

Dowd, Kevin, "The Costs of Inflation and Disinflation" Cato Journal 14 (Fall 1994): pp. 305-331.

Hoskins, W. Lee, "Response to a Defense of Zero Inflation" Quarterly Review 15, (Spring 1991):21-24. Federal Reserve Bank of Minneapolis

Shen, Pu, "Features and Risks of Treasury Inflation Protection Securities" Economic Review (First Quarter, 1998): 23-38. Federal Reserve Bank of Kansas City

Wrase, Jeffery M., "Inflation-Indexed Bonds: How do they work?" Business Review (July/August, 1997): pp. 3-16. Federal Reserve Bank of Philadelphia.

***Implications of Fiscal Policy: Government Purchases, Taxation, and the Budget (Barro chapters 12, 13 & 14; Romer chapter 11)***

Barro, Robert J., "The Neoclassical Approach to Fiscal Policy." (pp 178-235) in Modern Business Cycle Theory edited by Robert J. Barro

Gale, William G., and Orszag, Peter R., " Budget Deficits, National Saving, and Interest Rates." Brookings Papers on Economic Activity (2: 2004): 101-210.

***Final Exam: Friday December 15, 2006***

## Additional Issues

### *The Phillips Curve, NAIRU, and Monetary Policy*

Chang, Roberto, "Is Low Unemployment Inflationary?" Economic Review 82 (First Quarter, 1997): pp. 4-13. Federal Reserve Bank of Atlanta.

Espinosa-Vega, M.A. and Russell, Steven, "History and Theory of the NAIRU: A Critical Review" Economic Review 82 (Second Quarter, 1997): pp. 4-25. Federal Reserve Bank of Atlanta.

Symposium on the Natural Rate of Unemployment, Journal of Economic Perspectives 11, (Winter 1997): pp. 3-108.

### *The Transmission of Monetary Policy*

Bernanke, Ben S., "Credit in the Macroeconomy" Quarterly Review (Spring 1993) pp.50-70. Federal Reserve Bank of New York.

Bernanke, Ben and Mark Gertler, "Inside the Black Box: The Credit Channel of Monetary Policy Transmission" Journal of Economic Perspectives 9, (Fall 1995): pp. 27-48.

Krugman, Paul R., "It's Baaack: Japan's Slump and the Return of the Liquidity Trap" Brookings Papers on Economic Activity 2: 1998, pp. 137-205.

### *Macroeconomic Consequences of Financial Intermediation*

Bernanke, Ben S., "Credit in the Macroeconomy" Quarterly Review (Spring 1993) pp. 50-70. Federal Reserve Bank of New York

Bernanke, Ben S., Gertler, Mark, and Gilchrist, Simon "The Financial Accelerator and the Flight to Quality" Review of Economics and Statistics 78 (February 1998): pp. 1-15.

Becsi, Zsolt, and Wang, Ping, "Financial Development and Growth" Economic Review 82 (Fourth Quarter, 1997): pp. 46-62. Federal Reserve Bank of Atlanta.

Gertler, Mark., "Financial Structure and Aggregate Economic Activity: An Overview" Journal of Money, Credit, and Banking 20 (August 1988, Part II): pp. 559-588.

Greenwald, Bruce, Stiglitz, Joseph E., and Weiss, Andrew "Informational Imperfections in the Capital Market and Macroeconomic Fluctuations." American Economic Review 74 (may 1984): pp. 194-200.

Khan, Abuhik, "The Finance and Growth Nexus" Business Review (January/ February, 2000): pp. 3-14. Federal Reserve Bank of Philadelphia.

### *The Conduct of Monetary Policy*

Bernanke, Ben and Fredric S. Mishkin, "Inflation Targeting: A Framework for Monetary Policy?" Journal of Economic Perspectives 11, (Spring 1997) : pp 97-116.

Bernanke, Ben and Mark Gertler, "Monetary policy and Asset Price Volatility" Economic Review (Fourth Quarter, 1999) pp. 17-51. Federal Reserve Bank of Kansas City.

### *Addendum to Consumption Module*

Bernanke, Ben S., "Credit in the Macroeconomy" Quarterly Review (Spring, 1993) pp.50-70. Federal Reserve Bank of New York.

Case, Karl E., " Real Estate and the Macroeconomy" Brookings Papers on Economic Activity (2: 2000): 119-162.

Case, Karl E., John M. Quigley, and Robert J. Shiller, " Comparing Wealth Effects: The Stock Market versus the Housing Market" Advances in Macroeconomics (Vol 5, Issue 1) :1-34.

Case, Karl E. and Robert J. Shiller, " Is There a Bubble in the Housing Market?" Brookings Papers on Economic Activity (2: 2003): 299-364.

Gertler, Mark., "Financial Structure and Aggregate Economic Activity: An Overview" Journal of Money, Credit, and Banking 20 (August 1988, Part II): pp. 559-588.

Ludvigson, Sydney and Stindel, Charles, "How Important is the Stock Market Effect on Consumption?" Economic Policy Review (July, 1999): pp. 29-51. Federal Reserve Bank of New York.

Mishkin, Frederic S., "The Household Balance Sheet and the Great Depression" Journal of Economic History 38 (December, 1978): 918-937.

Poterba, James M., "Stock Market Wealth and Consumption" Journal of Economic Perspectives 14, (Spring 2000): pp. 99-118.

Romer, Christina D., "The Great Crash and the Onset of the Great Depression" Quarterly Journal of Economics 105 (August 1990): pp. 597-624.