

UNIVERSITY OF SOUTH FLORIDA
Department of Economics

Spring 2009
ECO 6206 001, Aggregate Economics

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Office Hours:

Tuesday and Thursday, 1:00 - 2:00 pm; or by appointment

Description:

This course provides an overview of modern macroeconomic theory. We will be studying simple dynamic general equilibrium economies. Within this broad framework, we will analyze simple infinite-horizon and two-period economies and use these frameworks to analyze various types of growth and business cycle models, search models of unemployment, and simple models of money.

Text:

Wickens, Michael, *Macroeconomic Theory*, (Princeton, NJ: Princeton University Press, 2008). **required** (denoted MW below)

Williamson, Steve, *Notes on Macroeconomic Theory*, mimeo, (St. Louis: Washington University in St. Louis, 2006). **required** (denoted SW below) available on Blackboard

In addition to the text, I have placed a number of useful books on reserve at the library.

Barro, Robert J. and Xavier Sala-i-Martin, *Economic Growth*, (Cambridge, MA: MIT Press, 2004). HD75.5.B37 2004 (BSiM)

Blanchard, Olivier and Stanley Fischer, *Lectures on Macroeconomics*, (Cambridge, MA: MIT Press, 1989). HB172.5 B57 1989 (BF)

Cooley, Thomas, ed., *Frontiers of Business Cycle Research*, (Princeton, NJ: Princeton University Press, 1995). HB3714.F74 1994

Romer, David, *Advanced Macroeconomics*, (New York: McGraw-Hill, 2001). HB172.5.R66 2001

Sargent, Thomas J., *Dynamic Macroeconomic Theory*, (Cambridge, MA: Harvard University Press, 1987) HB172.5 .S267 1987

Sargent, Thomas J. and Lars Ljungqvist, *Recursive Macroeconomic Theory, 2e*, (Cambridge, MA: MIT Press, 2004). HB172.5 .L59 2004 (SL)

Grade:

You will be given ten problem sets (4% each) and two exams (30% each). The schedule for these assignments and exams is given below. Problem sets are due *one* week after they are distributed. LATE PROBLEM SETS WILL NOT BE ACCEPTED NOR MAKE-UP EXAMS BE OFFERED UNLESS SPECIAL CIRCUMSTANCES ARE SHOWN IN ADVANCE TO APPLY. You are encouraged to work with others on the problem sets. If so, then please submit *one* copy of the problem set that includes the names of each group member. Groups of up to three are permitted. Each exam covers only the material taught during the one-half of the semester leading up to the exam date.

Problem Sets Available: January 15, 22, 29; February 5, 12; March 12, 26; April 2, 9, 16

Exam Dates: February 26 at 3:30 pm; April 30 at 3:00 pm

Grading Scale:

The following shows the *minimum* percentage score needed to earn the associated grade.

| | | | | | | | | | | |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- |
| 83% | 80% | 77% | 73% | 70% | 67% | 63% | 60% | 57% | 53% | 50% |

Rules and Regulations:

With the exception of the first day of class in which attendance is required in order to retain one's seat in the class, attendance is up to each individual student. However, there is a strong positive correlation between attendance and success in the class. Lectures may be taped, but neither these tapes nor written lecture notes may be sold.

Course Website:

All course documents are available on Blackboard. This includes pdf versions of this syllabus, the problem sets, answers to the problem sets and the exams, and study guides. You will also find copies of previous problem sets and exams and their answers, but these reflect a course built around a different textbook.

Course Outline:

Readings marked with an asterisk should be read. Note that some papers are available on-line through the USF Virtual Library or at the specified web page.

1. Introduction

*MW, Ch. 1

*Chari, V.V., "Nobel Laureate Robert E. Lucas, Jr.: Architect of Modern Macroeconomics," *Journal of Economic Perspectives*, Winter 1998, 12(1), pp. 171 – 186.

Kydland, F., "Quantitative Aggregate Economics," *American Economic Review*, December 2006, 96(5), pp. 1373 – 1383.

*Lucas, R.E., Jr., "Macroeconomic Priorities," *American Economic Review*, March 2003, 93(1), pp. 1 – 14.

Lucas, R.E., Jr., "Nobel Lectures: Monetary Neutrality," *Journal of Political Economy*, August 1996, 104(4), pp. 661 – 682.

Prescott, E.C., "Nobel Lecture: The Transformation of Macroeconomic Policy and Research," *Journal of Political Economy*, April 2006, 114(2), pp. 203 – 235.

2. Simple Representative Agent Models

*MW, Ch. 2 (skip §2.4.7, skip §2.7 – 2.7.2), Ch. 4 (skip §4.4 – 4.5), Ch. 5 (skip §5.4 – 5.6)

*SW, Ch. 1

BF, Ch. 2

3. Growth with Overlapping Generations

*MW, Ch. 6 (only §6.3.1 – 6.3.6)

*SW, Ch. 2

BF, Ch. 3

Romer, Ch. 2, Part B

Diamond, P., "National Debt in a Neoclassical Growth Model," *American Economic Review*, December 1965, 55(5), pp. 1126 – 1150.

Samuelson, P.A., "An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money," *Journal of Political Economy*, December 1958, 66(5), pp. 467 – 482.

3. Neoclassical Growth

Solow-Swan Model

*MW, Ch. 3 (only §3.1 – 3.3.3)

BSiM, Ch. 1 (only §1.1 – 1.2.13)

Romer, Ch. 1

SL, Ch. 14 (only §14.1 – 14.3)

*Baumol, W. J., “Productivity Growth, Convergence and Welfare: What the Long-Run Data Show,” *American Economic Review*, December 1986, 76(5), pp. 1072 – 1085.

*DeLong, J.B., “Productivity Growth, Convergence, and Welfare: Comment,” *American Economic Review*, December 1988, 78(5), pp. 1138 – 1154.

*Mankiw, N.G., D. Romer, and D.N. Weil, “A Contribution to the Empirics of Economic Growth,” *Quarterly Journal of Economics*, May 1992, 107(2), pp. 407 – 437. .

Solow, R.M., “A Contribution to the Theory of Economic Growth,” *Quarterly Journal of Economics*, February 1956, 70(1), pp. 65 – 94.

Optimal Growth Theory

*MW, Ch. 3 (only §3.4.1 – 3.4.2), , Ch. 15 (only §15.1 – 15.3.2, 15.5)

*SW, Ch. 3

BSiM, Ch. 2

Romer, Ch. 2, Part A

Sargent, Ch. 1 (only §1.1 – 1.4)

SL, Ch. 3 (only §3.1)

Brock, W.A. and L. Mirman, “Optimal Economic Growth and Uncertainty: The Discounted Case,” *Journal of Economic Theory*, June 1972, 4(3), pp. 479 – 513.

Cass, D., “Optimum Growth in an Aggregative Model of Capital Accumulation,” *Review of Economic Studies*, July 1965, 32(3), pp. 233 – 240.

Ramsey, F., “A Mathematical Theory of Saving,” *Economic Journal*, December 1928, 38(152), pp. 543 – 549.

4. Endogenous Growth Theory

*MW, Ch. 3 (only §3.5 – 3.5.2)

*SW, Ch. 4

BSiM, Chs. 4, 5

Romer, Ch. 3, Part A

SL, Ch. 14 (only §14.4 – 14.5)

*Bernanke, B.S. and R.S. Gürkaynak, “Is Growth Exogenous? Taking Mankiw, Romer and Weil Seriously,” NBER Working Paper 8365, July 2001.

*Lucas, R.E., Jr., “The Industrial Revolution: Past and Future” Federal Reserve Bank of Minneapolis *TheRegion* 2003 Annual Report Issue, May 2004.

Lucas, R.E., Jr., On the Mechanics of Economic Development,” *Journal of Monetary Economics*, July 1988, 22(1), pp. 3 – 42.

*Romer, P.M., “Endogenous Technological Change,” *Journal of Political Economy*, October 1990, part 2, 98(5), pp. S71 – S102.

5. Choice under Uncertainty

*MW, Ch. 10 (only §10.2.1 – 10.2.2), Ch. 14 (only §14.1 – 14.2.1), Ch. 15 (only §15.6)

*SW, Ch. 5

Cooley, Chs. 1, 5 – 7

Romer, Ch. 4

Sargent, Ch. 1 (only §1.6 – 1.7)

SL, Ch. 3 (only §3.2 – 3.3)

*Kydland, F. and E.C. Prescott, “Business Cycle: Real Facts and a Monetary Myth,” Federal Reserve Bank of Minneapolis *Quarterly Review*, Spring 1990, 14(2), 3 – 18.

*Lucas, R.E., Jr., “Present at the Creation: Reflections on the 2004 Nobel Prize to Finn Kydland and Edward Prescott,” *Review of Economic Dynamics*, October 2005, 8(4), pp. 777 – 779.

6. Consumption and Asset Pricing

*MW, Ch 10 (only §10.3.1 – 10.4.7, 10.7)

*SW, Ch. 6

BF, Ch. 10 (only §10.1)

Romer, Ch. 7 (only §7.1 – 7.2)

Sargent, Ch. 3

SL, Ch. 13

Hall, R., “Stochastic Implications of the Life Cycle-Permanent Income Hypothesis,” *Journal of Political Economy*, December 1978, 86(6), pp. 971 – 987.

Lucas, R.E., Jr., “Asset Prices in an Exchange Economy,” *Econometrica*, November 1978, 46(6), pp. 1426 – 1445.

Mehra, R. and E.C. Prescott, “The Equity Premium: A Puzzle,” *Journal of Monetary Economics*, March 1985, 15(2), pp. 145 – 162.

Mehra, R. and E.C. Prescott, “The Equity Premium: A Solution?” *Journal of Monetary Economics*, July 1988, 22(1), pp. 133 - 136.

7. Search and Unemployment

*SW, Ch. 7

BL, Ch. 7 (only §7.3)

Romer, Ch. 9 (only §9.8)

Sargent, Ch. 2

SL, Ch. 6

Lippman, S.A. and J.J. McCall, “Job Search in a Dynamic Economy,” *Journal of Economic Theory*, June 1976, 12(3), pp. 365 – 390.

McCall, J.J. “Economics of Information and Job Search,” *Quarterly Journal of Economics*, February 1970, 84(1), pp. 113 – 126.

*Rogerson, R., R. Shimer, and R. Wright, “Search-Theoretic Models of the Labor Market: A Survey,” *Journal of Economic Literature*, December 2005, 43(4), pp. 959 – 988.

8. Monetary Economics

Cash-in-Advance Models

*MW, Ch. 8 (only §8.1 – 8.4)

*SW, Ch. 8

BL Ch. 4 (only §4.2)

Sargent, Ch. 5

Clower, R., “A Reconsideration of the Microeconomic Foundations of Monetary Theory,” *Western Economic Journal*, December 1967, 6(1), pp. 1 – 8.

Cooley, T.F. and G.D. Hansen, “The Inflation Tax in a Real Business Cycle Model,” *American Economic Review*, September 1989, 79(4), pp. 733 – 748.

Lucas, R.E., Jr., “Liquidity and Interest Rates,” *Journal of Economic Theory*, April 1990, 50(2), pp. 237 – 264.

Search and Money

*SW, Ch. 9

SL, Ch. 26 (only §26.8 – 26.8.2)

Kiyotaki, N. and R. Wright, “On Money as a Medium of Exchange,” *Journal of Political Economy*, August 1989, 97(4), pp. 927 – 954.

*Rupert, P., M. Schindler, A. Shevchenko, R. Wright, “The Search-Theoretic Approach to Monetary Economics: A Primer,” Federal Reserve Bank of Cleveland *Economic Review*, 2000 Quarter 4, 36(4), pp. 10 – 28.

*Shi, S., “Viewpoint: A Microeconomic Foundation of Monetary Economics,” *Canadian Journal of Economics*, August 2006, 39(3), pp. 643 – 688.

Money in the Utility Function

*MW, Ch. 8 (only §8.5, 8.10 – 8.10.2)

BF, Ch. 4 (only §4.5)

Sargent, Ch. 4

Sidrauski, M., “Rational Choice and Patterns of Growth in a Monetary Economy,” *American Economic Review*, May 1967, 57(2), pp. 534 – 544.

Overlapping Generations Models of Money

*SW, Ch. 10

*BL, Ch. 4 (only §4.1)

Sargent, Ch. 7

SL, Ch. 9

Sargent, T.J. and N. Wallace, “The Real-Bills Doctrine versus the Quantity Theory: A Reconsideration,” *Journal of Political Economy*, November 1982, 90(6), pp. 1212 – 1236.

Sargent, T.J. and N. Wallace, “A Model of Commodity Money,” *Journal of Monetary Economics*, July 1983, 12(1), pp. 163 – 187.

Sargent, T.J. and N. Wallace, “Interest on Reserves,” *Journal of Monetary Economics*, May 1985, 15(3), pp. 279 – 290.

Sargent, T.J. and N. Wallace, “Some Unpleasant Monetarist Arithmetic,” Federal Reserve Bank of Minneapolis *Quarterly Review*, Winter 1985, 9(1), pp. 15 – 31.