

Syllabus

ECON 520 Advanced Macroeconomics Analysis

Spring 2016

Office hours: Thurs 2 - 3 pm, or by appointment

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Location: GA 06G

General Information: This course is part of the Macroeconomics sequence at the University of North Carolina, Chapel Hill.

Objective: The course is designed to teach senior undergraduates their way around the professional, highly technical literature, to provide a sketch of approaches and positions on issues of macroeconomic policy and theory, and to provide as thorough a grounding as can be provided in a single semester to the models and tools macroeconomists use.

Macroeconomic analysis is primarily concerned with two issues: (i) developing positive models in order to understand the dynamics of key macroeconomic variables such as output, employment, unemployment, inflation, interest rates, etc.; and (ii) deriving normative prescriptions for macroeconomic policymaking, in particular regarding the proper setting of fiscal and monetary policies.

Readings *should* be completed before class: lecture will make more sense, and the process of trying to learn how to constructively read modern economics journal articles is an important professional skill.

Problem sets *must* be attempted--in groups if you wish, alone if you wish. One of the major points of the course is to give the students familiarity with the analytical tools that modern macroeconomists use. The *only* way to become proficient in their use is to use them: hence the problem sets.

Text: David Romer, *Advanced Macroeconomics*, McGraw-Hill/Irwin, 2006 .
Listed journal articles.

Attendance: Attendance is of vital importance to your performance in this class. The information provided each lecture has a direct bearing on exams. Extensive absenteeism can be detrimental to your grade.

Examinations: The assessment for this class consists of two midterm exams, a final exam, and a term paper. Midterms and final exam are closed notes and closed books. The midterms will be worth 20 % each and the final will be worth 40%. The term paper will account for the remaining 20% of your grade. The exam schedule will be announced in class.

There will be **no make-up exams**. If an exam is missed **for a valid reason**, the final exam will be weighted accordingly. You are required to take the final.

General Disclaimer: There are no absolute guarantees in life. Although every effort will be made to adhere to the preceding statements and the schedule that follows, this syllabus is subject to change as circumstances warrant.

Starred () readings are required.*

I. Economic Growth

A. The Solow Model

*Romer, David. *Advanced Macroeconomics* (second edition), Chapter 1.

*Solow, Robert. 1956. "[A Contribution to the Theory of Economic Growth](#)" *Quarterly Journal of Economics* 70:65-94.

B. Cross-Country Income Differences

*Romer, David. *Advanced Macroeconomics*, Chapter 3, Part B.

*Hall, Robert E. and Charles I. Jones. 1999. "[Why Do Some Countries Produce So Much More Output per Worker than Others?](#)" *Quarterly Journal of Economics* 114:83-116.

*Mankiw, N. Gregory, David Romer, and David N. Weil. 1992. "[A Contribution to the Empirics of Economic Growth](#)" *Quarterly Journal of Economics* 107:407-437.

*Jones, Charles I. 1997. "[On the Evolution of the World Income Distribution](#)" *Journal of Economic Perspectives* 11:19-36.

C. Endogenizing Growth

*Romer, David. *Advanced Macroeconomics*, Chapter 3, Part A.

Rebelo, Sergio. 1991. "[Long-Run Policy Analysis and Long-Run Growth](#)" *Journal of Political Economy* 99:500-521.

*Lucas, Robert E. 1988. "On the Mechanics of Economic Development" *Journal of Monetary Economics* 22:3-42.

*Romer, Paul M. 1990. "[Endogenous Technological Change](#)" *Journal of Political Economy* 98:S71-S102.

Jones, Charles I. 1995. "[R&D-Based Models of Economic Growth](#)" *Journal of Political Economy* 103:759-784.

Kremer, Michael. 1993. "[Population Growth and Technological Change: One Million B.C. to 1990](#)" *Quarterly Journal of Economics* 108:681-716.

Jones, Charles I. 2003. "[Growth and Ideas](#)" U.C. Berkeley mimeo.

II. DSGE Models of Fluctuations

A. Business Cycles in the Neoclassical Growth Model

*Romer, David. *Advanced Macroeconomics*, Chapter 4.

Cooley, Thomas F. and Edward C. Prescott. 1995. "Economic Growth and Business Cycles." Chapter 1 of Cooley (ed.) *Frontiers of Business Cycle Research*

*Campbell, John Y. 1994. "Inspecting the Mechanism: An Analytical Approach to the Stochastic Growth Model" *Journal of Monetary Economics* 33:463-506.

*Prescott, Edward. 1986. "[Theory Ahead of Business Cycle Measurement](#)" Federal Reserve Bank of Minneapolis *Quarterly Review* 10(4):1-22.

*Summers, Lawrence. 1986. "[Some Skeptical Observations on Real Business Cycle Theory](#)" Federal Reserve Bank of Minneapolis *Quarterly Review* 10(4):23-27.

*Hansen, Gary and Randall Wright. 1992. "[The Labor Market in Real Business Cycle Theory](#)" Federal Reserve Bank of Minneapolis *Quarterly Review* 16(2).

B. Fiscal Policy and Budget Deficits

*Romer, David. *Advanced Macroeconomics*, Chapter 11.

Barro, Robert J. 1979. "On the Determination of Public Debt." *Journal of Political Economy* 87 (October): 940-971.

Tabellini, Guido, and Alberto Alesina. 1990. "Voting on the Budget Deficit." *American Economic Review* 80 (March): 37-49.

Alesina, Alberto, and Allan Drazen. 1991. "Why Are Stabilizations Delayed?" *American Economic Review* 81 (December): 1170-1188.

*Roubini, Nouriel, and Jeffrey D. Sachs. 1989. "Political and Economic Determinants of Budget Deficits in the Industrial Democracies." *European Economic Review* 33 (May): 903-933.

*Grilli, Vittorio, Donato Masciandaro, and Guido Tabellini. 1991. "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries." *Economic Policy* 13 (October): 341-392.

*Auerbach, Alan J., William G. Gale, and Peter R. Orszag. 2002. "The Budget Outlook and Options for Fiscal Policy." *Tax Notes* 95 (June 10): 1639-1662.

III. OTHER TOPICS

I. UNEMPLOYMENT

A. OVERVIEW AND SOME FACTS

*Romer, Ch. 5.6

Blanchard, O. and L. Katz, "What We Know and Do Not Know About the Natural Rate of Unemployment." *The Journal of Economic Perspectives*, Winter 1997, 11:1:51-72.

Davis, S., J. Haltiwanger, and S. Schuh, *Job Creation and Destruction*, Cambridge, MA: MIT Press, 1996. Chapter 2.

Solon, G., R. Barsky, and J. Parker, "Measuring the Cyclicalities of Real Wages: How Important is Composition Bias?," *Quarterly Journal of Economics*, 1994, 109:1:1-26.

OECD Jobs Study, 1994, Evidence and Explanations, Parts I and II.

B. EFFICIENCY WAGES

*Romer, 9.2-9.4

*Shapiro, C. and J. Stiglitz, *Equilibrium Unemployment as a Worker-Discipline Device*." *American Economic Review*, June 1984, 74:443-444.

*Krueger, A. and L. Summers, "Efficiency Wages and the Inter-industry Wage Structure." *Econometrics*, March 1988, 56:259-293.

Abowd, J.M., Kramarz, F., and D.N. Margolis, "High Wage Workers and High Wage Firms." *Econometrica*, 1999, 67:2, 251-333.

C. SEARCH

*Romer, Ch. 9.8.

*Pissarides, C., Equilibrium Unemployment Theory. Oxford: Basil Blackwell, 2000. Chapter 1.

Diamond, P., "Wage Determination and Efficiency in Search Equilibrium," Review of Economic Studies, 1982, 49:2:217-27.

D. UNEMPLOYMENT DYNAMICS

Blanchard, O., and L. Summers, "Hysteresis in Unemployment." European Economic Review, 1987, 31:288-295.

*Mankiw, N.G., "The Inexorable and Mysterious Tradeoff Between Inflation and Unemployment," Harry Johnson Lecture, Econometric Society, 2000.

Blanchard, O., and L. Katz, "Wage Dynamics: Reconciling Theory and Evidence," American Economic Review, May 1999, 89:69-74.

II. INVESTMENT

*Romer, ch. 8.1-8.4

Romer, ch. 8.5-8.8

III. CONSUMPTION

GENERAL REFERENCE: ROMER, CH. 7

A. THE LIFE CYCLE AND PERMANENT INCOME HYPOTHESES

Deaton, A., Understanding Consumption, Clarendon Press, Oxford 1992. Chapters 1 and 2.

*Blanchard and Fischer, Section 2.

*Carroll, C. and L. Summers, "Consumption Growth Parallels Income Growth: Some New Evidence," in Bernheim and Shoven eds. *National Saving and Economic Performance*, Chicago, University of Chicago Press, 1991. 305-347.

Sargent, T., Dynamic Macroeconomic Theory, Harvard University Press, 1987, Chapter 1.

B. AGGREGATE CONSUMPTION FLUCTUATIONS: EXCESS SMOOTHNESS AND EXCESS SENSITIVITY

Deaton, Chapters 3 and 4.

*Hall, R.E., "Stochastic Implications of the Life Cycle Permanent Income Hypotheses: Theory and Evidence," Journal of Political Economy, December 1978, 971-87.

*Flavin, M., "The Excess Smoothness of Consumption: Identification and Interpretation," Review of Economic Studies, July 1993, 60:3:651-666.

Pischke, S., "Individual Income, Incomplete Information, and Aggregate Consumption," Econometrica, July 1995, 63:4:805-840.

C. PRECAUTIONARY SAVINGS, LIQUIDITY CONSTRAINTS AND BUFFER STOCK MODELS

Deaton, Chapters 5 and 6

*Carroll, C., "Buffer-Stock Saving and the Life Cycle/Permanent Income Hypothesis," Quarterly Journal of Economics, February 1997.

*Gourinchas, P. and J. Parker, "Consumption Over the Lifecycle," mimeo, 1996.

*Zeldes, S., "Consumption and Liquidity Constraints: An Empirical Investigation," Journal of Political Economy, 1989, 97:305-346.

Carroll, C. and M. Kimball, "On the Concavity of the Consumption Function," Econometrica.

Kimball, M., "Precautionary Saving in the Small and in the Large," Econometrica, January 1990, 58:53-73.

D. CONSUMPTION AND ASSET MARKETS

Deaton, pp. 65-76.

Siegel, Jeremy J. and Richard H. Thaler, "The Equity Premium Puzzle," Journal of Economic Perspectives, Winter 1997, 11:1:191-200.

Blanchard, O., "Movements in the Equity Premium" Brookings Papers on Economic Activity, 1993,2:75-138.

Campbell, John Y. and John H. Cochrane, "By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior," Journal of Political Economy, April 1999, 107:2:205-251.

Hansen, L. and K. Singleton, "Stochastic Consumption, Risk Aversion, and the Temporal Behavior of Asset Returns," Journal of Political Economy, 1983, 91:2:249-265.

Lucas, R., "Asset Prices in an Exchange Economy," Econometrica, December 1978, 46:1429-1445.

Mehra R. and E. Prescott, "The Equity Premium: a Puzzle," Journal of Monetary Economics, 1985, 145-162.