

University of Wyoming
College of Business
Department of Economics and Finance

ECON 5110
Macroeconomics II
TR 2:45-4:00
Spring 2014

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Class Homepage: <http://www.uwyo.edu/aadland/classes/econ5110/>

Course Description and Objectives:

This course presents an overview of modern macroeconomics. We will cover a fairly wide range of topics across growth and business cycle theory: classical models, Keynesian models, learning, self-fulfilling prophecies, multiple equilibria, empirical methods, and solution techniques for dynamic macro models. An emphasis will be placed on computational methods, and where possible, the relationships between macro and ENR issues. The goal is not to make you practicing macroeconomists, but rather to give you a general sense of modern macroeconomic problems and the tools used to address them.

Course Prerequisites: Intermediate Macroeconomics & Microeconomics Theory, Calculus.

Primary Texts:

Advanced Macroeconomics (4th edition) – David Romer

Macroeconomics of Self-Fulfilling Prophecies (2nd edition) – Roger E. Farmer

Secondary Texts:

Models for Dynamic Macroeconomics – Fabio-Cesare Bagliano and Giuseppe Bertola

Lectures on Macroeconomics – Oliver J. Blanchard and Stanley Fischer

Frontiers of Business Cycle Research – edited by Thomas F. Cooley

Handbook of Macroeconomics (3 volumes) – edited by John B. Taylor and Michael Woodford

Learning and Expectations in Macroeconomics – George W. Evans and Seppo Honkapohja

Monetary Theory and Policy – Carl E. Walsh

Economic Growth (2nd edition) – Robert J. Barro and Xavier Sala-i-Martin

Macroeconomics (7th edition) – N. Gregory Mankiw

Course Requirements:

- Examinations. There will be two exams: a midterm and a final.
- Problem Sets. There will be a total of five problem sets, which will be made available on our class webpage. The due date will be clearly printed at the top of each assignment. No late assignments will be accepted. Collaborative work is encouraged; however, each student is required to turn in an independently composed set of answers.
- Presentations. Each student will be required to make two in-class presentations of scholarly papers. Additional details on the presentations will be discussed later in the class.

Grading: Problem sets and examinations will be weighted as follows:

Presentations	(50 pts)	16.7%
Problem Sets	(50 pts)	16.7%
Exam #1	(100 pts)	33.3%
Exam #2	(100 pts)	33.3%
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	(300 pts)	100%

Academic Dishonesty:

UNIREG 802, Revision 2, defines academic dishonesty as “an act attempted or performed which misrepresents one’s involvement in an academic task in any way, or permits another student to misrepresent the latter’s involvement by assisting the misrepresentation.” Academic dishonesty will not be tolerated in this class; any instances will be referred to the university’s established procedure for judging such cases, with severe penalties as found appropriate.

Disclaimer:

Subsequent changes may be made to any aspect or detail of this Syllabus if and when necessary. Any changes will be announced in class as soon as practical.

Abbreviated Course Outline

1. Overview of the Macroeconomy & Review of Intermediate Macro
2. Growth Theory
3. Introduction to Empirical Macroeconomics
4. Introduction to Real Business Cycle Theory
5. Introduction to New Keynesian Theory
6. Topics in Real Business Cycle Theory
7. Endogenous Fluctuations
8. Learning
9. Topics in New Keynesian Theory
10. Topics in Empirical Macroeconomics
11. Wrapping it Up: The Great Depression & The Great Recession

COURSE OUTLINE

1. Overview of the Macroeconomy & Review of Intermediate Macro

Macroeconomic Data

- Mankiw, chapter 2.
- Barro and Sala-i-Martin, introduction.
- Handbook of Macroeconomics, chapter 1.

Solow Growth Model

- Mankiw, chapter 7.

IS-LM Model

- Mankiw, chapters 10-11.

2. Growth Theory

Solow Growth Model (continued)

- Romer, chapter 1.
- Barro and Sala-i-Martin, section 1.2

Testing the Solow Model

- Mankiw, N. Gregory, David Romer and David N. Weil. (1992) "A Contribution to the Empirics of Economic Growth." *Quarterly Journal of Economics*, 107(2), 407-437.

The Environment, Natural Resources and Growth

- Brander, James A. and M. Scott Taylor. (1998) “The Simple Economics of Easter Island: A Ricardo-Malthus Model of Renewable Resource Use.” *American Economic Review*, 88(March), 119-138.
- Sachs, Jeffrey D. and Andrew M. Warner. (1999) “The Big Push, Natural Resource Booms and Growth.” *Journal of Development Economics*, 59, 43-76.
- Brock, William A. and M. Scott Taylor. (Forthcoming) “The Green Solow Model.” *Journal of Economic Growth*.

Endogenous Growth Theory

- Romer, chapters 3 and 4.
- Barro and Sala-i-Martin, section 1.3.
- Arrow, Kenneth. (1962) “The Economic Implications of Learning-by-Doing.” *Review of Economic Studies*, 29(3), 155-172.
- Romer, Paul. (1986) “Endogenous Technical Change.” *Journal of Political Economy*, 98 (October, Part 2): S71-S102.
- Lucas, Robert E. Jr. (1988) “On the Mechanics of Economic Development.” *Journal of Monetary Economics*, 22: 3-42.

3. Introduction to Empirical Macroeconomics

- Univariate and Multivariate Stochastic Processes
- Decomposition: Trends and Cycles
- Calibration and Estimation

4. Introduction to Real Business Cycle Theory

Background: Ramsey Growth Model

- Romer, chapter 2, part A.
- Barro and Sala-i-Martin, chapter 2.

Basic Model, Solution, Calibration and Simulation

- Farmer, chapter 3 & chapter 5, pages 99-110.
- Romer, chapter 5.
- Prescott, Edward. (1986) “Theory Ahead of Business Cycle Measurement.” Federal Reserve Bank of Minneapolis *Quarterly Review*, Fall, 9-22.
- Hansen, Gary D. (1985) “Indivisible Labor and the Business Cycle.” *Journal of Monetary Economics*, 16(November), 309-327.

Business Cycles and the Environment

- Heutel, Garth. (Forthcoming) “How Should Environmental Policy Respond to Business Cycles? Optimal Policy under Persistent Productivity Shocks.” *Review of Economic Dynamics*.

5. Introduction to New Keynesian Theory

- Romer, chapters 6 and 7.
- Taylor, John B. (1979) “Staggered Wage Setting in a Macro Model.” *American Economic Review*, 69(May): 108-13.
- Clarida, Richard, Jordi Gali and Mark Gertler. (2000) “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory.” *Quarterly Journal of Economics*, 115, 147-180.

6. Topics in Real Business Cycle Theory

- King, Robert G. and Sergio Rebelo. (1999) “Resuscitating Real Business Cycles,” in John B. Taylor and Michael Woodford, eds., *Handbook of Macroeconomics*, vol 1A, 927-1007.

Labor Market

- Christiano, Lawrence and Martin Eichenbaum. (1992) “Current Real-Business Cycle Theories and Aggregate Labor Market Fluctuations.” *American Economic Review*, 82(3): 430-50.
- Aadland, David. (2001) “High-Frequency Real Business Cycles.” *Journal of Monetary Economics*, 48(2): 271-92.

Propagation

- Cogley, Timothy and James Nason. (1995) “Output Dynamics in Real-Business- Cycle Models.” *American Economic Review*, 85(June): 492-511.

International

- Backus, David, Patrick Kehoe and Fynn Kydland. (1992) “International Real Business Cycles.” *Journal of Political Economy*, 100(4): 745-75.

7. Endogenous Fluctuations

- Farmer, chapters 7 and 10.

- Benhabib, Jess and Roger E.A. Farmer. (1999) “Indeterminacy and Sunspots in Macroeconomics,” in John B. Taylor and Michael Woodford, eds., *Handbook of Macroeconomics*, vol 1A, 387-448.

8. Learning

- Evans and Honkapohja, chapters 1-2, and 4.
- Evans, George W. and Seppo Honkapohja. (1999) “Learning in Macroeconomics,” in John B. Taylor and Michael Woodford, eds., *Handbook of Macroeconomics*, vol 1A, 449-542.
- Evans, George W., Seppo Honkapohja, and Paul Romer. (1998). “Growth Cycles,” *American Economic Review*, 88(3), 495-515.

9. Topics in New Keynesian Theory

Rigidities

- Gray, Jo Anna. (1976) “Wage Indexation: A Macroeconomic Approach.” *Journal of Monetary Economics*, 2, 221-35.
- Mankiw, Gregory N. (1985) “Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly.” *Quarterly Journal of Economics*, 100, 529-39.
- Mankiw, Gregory N. and Ricardo Ries. (2002) “Sticky Information Versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve.” *Quarterly Journal of Economics*, 117, 1295-1328.

Coordination Failures

- Diamond, Peter. (1982) “Aggregate Demand Management in Search Equilibrium.” *Journal of Political Economy*, 90, 881-94.
- Cooper, Russel and Andrew John. (1988) “Coordinating Coordination Failures in Keynesian Models.” *Quarterly Journal of Economics*, 103, 441-63.

Efficiency Wages

- Shapiro, Carl and Joseph Stiglitz. (1984) “Equilibrium Employment as a Worker Discipline Device.” *American Economic Review*, 74, 433-44.

Monetary Policy

- Walsh, chapter 5.
- Kydland, Fynn and Edward Prescott. (1977) “Rules Rather than Discretion: The Inconsistency of Optimal Plans.” *Journal of Political Economy*, 87, 473-492.

- Clarida, Richard, Jordi Gali and Mark Gertler. (1999) “The Science of Monetary Policy,” *Journal of Economic Literature*, 37(4), 1661-707.
- Bullard and Mitra. (2002) “Learning About Monetary Policy Rules.” *Journal of Monetary Economics*, 49(6), 1105-29.
- Chari, V.V. and Patrick J. Kehoe. (2006) “Modern Macroeconomics in Practice: How Theory is Shaping Policy.” *Journal of Economic Perspectives*, 20(4), 3-28.
- Gali, Jordi and Mark Gertler. (2007) “Macroeconomic Modeling for Monetary Policy Evaluation.” *Journal of Economic Perspectives*, 21(4), 25-45.

Overlapping Generations Monetary Model

- Farmer, chapter 6.

New Neoclassical Synthesis

- Goodfriend, Marvin. (2004) “Monetary Policy in the New Neoclassical Synthesis: A Primer.” Federal Reserve Bank of Richmond *Economic Quarterly*, 90(3), 21-45.
- Woodford, Michael. (2009) “Convergence in Macroeconomics: Elements of the New Synthesis.” *American Economic Journal: Macroeconomics*, 1(1), 67-279.

10. Topics in Empirical Macroeconomics

- Structural VARs
- GMM Estimation

11. Wrapping it Up: The Great Depression and the Great Recession

- Bordo, Michael D., Christopher J. Erceg and Charles L. Evans. (2000) “Money, Sticky Wages and the Great Depression.” *American Economic Review*, December, 1447-1463.
- Cole, Harold L. and Lee E. Ohanian. (2004) “New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis.” *Journal of Political Economy*, 112(4), 779-816.
- Harrison, Sharon and Mark Weder. (2006) “Did Sunspot Forces Cause the Great Depression?” *Journal of Monetary Economics*, 53(7), 1327-1340.
- Reinhart, Carmen and Kenneth Rogoff. (2009) “The Aftermath of Financial Crises.” *American Economic Review*, 99(2), 466-472.