

ECON-702 Macroeconomic Analysis I

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Thursdays 5:30-8:00
Spring 2009

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This is the first PhD level class in macroeconomic theory. Whereas microeconomics studies the behavior of specific economic agents (consumers, firms) and specific markets, macroeconomics studies the behavior of the economy as a whole. Key measures of macroeconomic performance include growth, productivity, inflation, consumption, saving, investment, interest rates, money supply, government spending and taxation, asset markets, trade, capital flows, and exchange rates.

Unlike the field of microeconomics, in which we could say there is little disagreement about basic theoretical constructs and approaches, the field of macroeconomics is fraught with disagreements about how best to conceptualize basic macroeconomic phenomena. Examples of contested questions are: Is consumer behavior well-represented as intertemporal optimization? Are people's expectations about future movements in macro variables 'rational', or are they subject to biases or learning problems? Are exogenous shocks to productivity and preferences the primary determinants of business cycles, or are factors like 'animal spirits' also involved? Because this is a first-level class in macro theory, we will primarily emphasize conventional representations of the macro-economy, as these constitute the basic theoretical foundations from which much macroeconomic model-building proceeds. However, we will often review empirical evidence for or against such representations and indicate areas in which alternative approaches are being developed and/or important debates are underway. The article for week 1 by Michael Woodford provide an excellent overview of the evolution of macroeconomic approaches over the 20th century, especially in the past 25-30 years.

In addition to developing a strong grasp of basic contemporary macroeconomic theory, this class is also intended to help you develop your conceptual reasoning skills and command of important mathematical tools used in macroeconomic analysis like comparative statics, dynamic optimization, phase diagrams, etc. Command of these tools will be generally helpful in your PhD coursework, as well as possibly in your dissertation and/or subsequent research. It is assumed that you have sufficient command of basic calculus, linear algebra, and statistics to proceed without distress through the class material. The textbook for the class (see below) also has a mathematical appendix that provides helpful exposition of methods used to set up, manipulate and solve the core models developed in the course.

This class assumes you have significant prior background in macroeconomics and microeconomics at the upper undergraduate and/or master's level. If your knowledge is rusty or insecure, you may want to keep an advanced intermediate text like Olivier Blanchard's *Macroeconomics* on your desk for reference.

Readings

The textbook for this class is Michael Wickens, *Macroeconomic Theory: A Dynamic General Equilibrium Approach* (Princeton University Press, 2008). It is the most up-to-date advanced macroeconomics text available and adopts the (now widely held) position that the macro-economy should be understood as

continually buffeted by shocks of various kinds and continually in the process of adjusting to these shocks, pulled by long-run equilibrating forces that equalize marginal returns to resources over time and across alternative uses of those resources.

Additionally, articles are available electronically in the “Course Documents” section of the class website. Some of these are ‘classic’, path-breaking articles that were published in the profession’s top journals. Others are summaries of research literature, including entries in the recently published *New Palgrave Dictionary of Economics* (usually written by a ‘big name’ in the field). They do not need to be read with the same careful attention as the textbook, although you will often find that they round out the ideas developed in the text in ways that help establish the significance of those ideas.

Graded work

The grade for this class will be determined as follows:

Item	Contribution to final grade (percent)	Due date
Problem sets (~4)	20	Various
Midterm	30	March 5
Final exam	45	April 30
Class participation	5	Throughout

Date	Subject	Readings
Jan. 15	Introduction to advanced macroeconomic theory	Wickens, Chap. 1 M. Woodford, "Revolution and Evolution in Twentieth-Century Macroeconomics" (1999)
Jan. 22	Centralized economy, investment	Wickens, Chap. 2 Palgrave, "Tobin's q"
Jan. 29	Economic growth	Wickens, Chap. 3 New Palgrave, "Empirical growth regularities" R. Solow, "A Contribution to the Theory of Economic Growth," <i>Quarterly Journal of Economics</i> (1956). P. Romer, "Endogenous Technological Change" (1990).
Feb. 5	Decentralized economy, consumption	Wickens, Chap. 4 S. DellaVigna, "Psychology and Economics," <i>Journal of Economic Literature</i> (forthcoming).
Feb. 12 & 19	Fiscal policy	Wickens, Chaps. 5 & 6 R. Barro, "The Ricardian Approach to Budget Deficits", <i>Journal of Economic Perspectives</i> (1989) Palgrave, "Ricardian equivalence"
Feb. 26	Open economy	Wickens, Chap. 7 Palgrave, "International finance"
Mar. 5	MIDTERM	
Mar. 12	Spring break	
Mar. 19 & 26	Monetary policy	Wickens, Chaps. 8, 9, and 13 Palgrave, "New Keynesian Macro"
Apr. 2	Asset pricing & macroeconomics; financial markets	Wickens, Chaps. 10 & 11 R. Shiller, "From efficient markets to behavioral finance", <i>Journal of Economic Perspectives</i> (2003). Palgrave, "Behavioral finance"
Apr. 9	Fluctuations, real-business cycle models	Wickens, Chap. 14 S. Rebelo, "Real Business Cycle Models: Past, Present And Future," <i>Scandinavian Journal of Economics</i> (2005).
Apr. 16	Nominal exchange rates	Wickens, Chap. 12
Apr. 23	DSGE models + Wrap up	F. Smets and R. Wouters, "Comparing shocks and frictions in the U.S. and Euro Area Business Cycles"
Apr. 30	FINAL EXAM	

