

Economics 210A

Fall 2002

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Reading Material

This course is based on recent academic articles and two graduate-level Macroeconomics textbooks:

- 1) Blanchard, O. and S. Fischer (1989), *Lectures on Macroeconomics*, MIT Press, and
- 2) Maurice Obstfeld and Kenneth Rogoff (1996), *Foundations of International Economics*, MIT Press.

A third useful reference (though not a required textbook) is

- 3) David Romer (1996), *Advanced Macroeconomics*, McGraw Hill.

Copies of books 1) and 2), and some copies of 3), have been ordered by the UCSD bookstore.

Hard copies of the articles will be available in the Graduate Student Lounge (Room 106 of the Economics Building) for photocopying only. Alternatively, you can obtain the articles from the original source or JSTOR. Additional reading material (beyond that listed in this syllabus) may be assigned during the semester.

Grading Policy

Problem Sets:	20%
Midterm Exam:	30%
Final Exam:	50%

You are encouraged to work together in the problems sets, but you must hand in your own written answers. No books or notes will be allowed for the exams. The final exam is cumulative.

Course Outline

1. Introduction

Blanchard, O. (1999), "What Do We Know About Macroeconomics that Fisher and Wicksell Did Not?", *Quarterly Journal of Economics*, 115, p. 1375-1410.

Baumol, W. J. (2000), "What Marshall *Didn't* Know: On the Twentieth Century's Contributions to Economics," *Quarterly Journal of Economics*, 115, p. 1-44.

2. Infinite Horizon

2.1. Consumption/Savings Choice

The Solow Model. Convergence. Centralized and decentralized versions of the Ramsey model.

Introduction of the government. Ricardian Equivalence.

Blanchard and Fischer, ch. 2.1 to 2.3 and 2.5 (see also Obstfeld and Rogoff, ch. 7.1 and 7.2; Romer, ch. 1 and ch. 2.A)

2.2. Investment Decision

Introduction of adjustment costs to capital accumulation in the Ramsey model. Interpretations in a centralized and decentralized economy. Investment, savings, and the current account in a small open economy

Blanchard and Fischer, ch. 2.4

Kraay, A. and Ventura, J. (2000), "Current Accounts in Debtor and Creditor Countries", *Quarterly Journal of Economics*, 115, p. 1137-1166.

3. Finite Horizon

3.1. OLG Models

The implications of finite lives for aggregate consumption, savings, and capital accumulation. Dynamic inefficiency. Pareto Optimality. Social security.

Blanchard and Fischer, ch. 3, 5-1 and 5-2 (see also, Obstfeld and Rogoff, ch. 3; Romer, ch. 2-B)

3.2. Intertemporal Trade and the Current Account

Gains from trade. Two period models with and without production.

Obstfeld and Rogoff, ch. 1.1 and 1.2.

4. International Financial Markets

4.1. The Role of Uncertainty

Trade across Random States of Nature. Arrow-Debreu Securities. Risk Sharing. Portfolio Diversification, CAPM.

Obstfeld and Rogoff, ch. 5.

4.2. Imperfections

Sovereign Risk. Full Insurance. Optimal Contracts.

Obstfeld and Rogoff, ch. 6.

5. Money

OLG Models with Money. Money in the Utility Function. Cash in Advance Constraint. The Dynamics of Hyperinflation. The Cagan Model. Budget Deficits and the Money Supply. The Fiscal Theory of the Price Level.

Blanchard and Fischer, ch. 4 (see also Obstfeld and Rogoff, ch. 8).

Dornbusch, R., F. Sturzenegger and H. Wolf (1990), "Extreme Inflation: Dynamics and Stabilization", *Brookings Papers on Economic Activity*, 2 p. 1-84.

Ruge-Murcia, F. J. (1995), "Credibility and Changes in Policy Regime," *Journal of Political Economy*, 103, p. 176-208.

Christiano, L. J. and Fitzgerald, T. J. (2000), "Understanding the Fiscal Theory of the Price Level," *NBER Working Paper No. 7668*.