Spring 2003-04

Economics 210C – Macroeconomics Prof. Garey Ramey

# Syllabus

Course Grade. The grade will be based on one midterm (35%) and one final (65%).

### **Recommended Texts.**

Romer, *Advanced Macroeconomics*, 2<sup>nd</sup> edition, MIT Press, 2001. Walsh, *Monetary Theory and Policy*, MIT Press, 1998. Adda and Cooper, *Dynamic Economics*, MIT Press, 2003.

Topics and Readings. Required readings are marked with stars.

# 1. Real Business Cycles

- Business cycle facts
- RBC model
- Productivity as driving process
- Government spending as driving process
- \* Stock and Watson, "Business Cycle Fluctuations in US Macroeconomic Time Series," in Taylor and Woodford, eds., *Handbook of Macroeconomics*, vol. 1A, Elsevier, 1999 (pp. 5-14).

Canova, "Detrending and Business Cycle Facts," JME 41, June 1998.

\* King and Rebelo, "Resuscitating Real Business Cycles," in Taylor and Woodford, eds., *Handbook of Macroeconomics, vol. 1B*, Elsevier, 1999.

Romer, ch. 4.

Prescott, "Theory Ahead of Business-Cycle Measurement," *CRCSPP* 25, Aut. 1986. Hansen, "Indivisible Labor and the Business Cycle," *JME* 16, Nov. 1985.

\* Baxter and King, "Fiscal Policy in General Equilibrium," AER 83, June 1993. Christiano and Eichenbaum, "Current Real-Business-Cycle Theories and Aggregate Labor-Market Fluctuations," AER 82, June 1992.

Cogley and Nason, "Output Dynamics in Real-Business-Cycle Models," AER 85, June 1995.

Rotemberg and Woodford, "Real-Business-Cycle Models and Forecastable Movements in Output, Hours, and Consumption," *AER* 86, Mar. 1996.

## 2. Monetary Business Cycles

- CIA and MIU models
- Misperceptions and nominal rigidities
- Monopolistic competition model
- Staggered pricing

- \* Walsh, chs. 1-3, 5 (pp. 189-226).
- \* Cooley and Hansen, "Money and the Business Cycle," in Cooley, ed., Frontiers of Business Cycle Research, Princeton Univ. Press, 1995.
  - Romer, chs. 5 (pp. 242-258), 6.
- \* Chari, Kehoe and McGrattan, "Sticky Price Models of the Business Cycle: Can the Contract Multiplier Solve the Persistence Problem?" *Econometrica* 68, Sept. 2000.
  - Lucas, "Some International Evidence on Output-Inflation Tradeoffs," AER 63, June 1973.

Fischer, "Long-Term Contracts, Rational Expectation, and the Optimal Money Supply Rule," JPE 85, Feb. 1977.

Taylor, "Staggered Wage Setting in a Macro Model," *AER* 69, May 1979. Fuhrer and Moore, "Inflation Persistence," *QJE* 110, Feb. 1995.

## 3. Monetary Policy

- Optimal money growth
- Seignorage and hyperinflation
- Discretion and inflation bias
- Stabilization policy
- \* Walsh, chs. 2, 9-10.

Romer, ch. 10.

Cagan, "The Monetary Dynamics of Hyperinflation," in Friedman, ed., Studies in the Ouantity Theory of Money, Univ. of Chicago Press, 1956.

- \* Clarida, Gali and Gertler, "The Science of Monetary Policy: A New Keynesian Perspective," JEL 37, Dec. 1999.
  - Kydland and Prescott, "Rules Rather that Discretion: The Inconsistency of Optimal Plans," JPE 85, June 1977.
  - Barro and Gordon, "Rules, Discretion and Reputation in a Model of Monetary Policy," *JME* 12, July 1983.

Taylor, "Discretion versus Policy Rules in Practice," CRCSPP 39, Dec. 1993.

#### 4. Fiscal Policy

- Public debt and Ricardian equivalence
- Discretion and capital taxation
- Debt crises
- \* Romer chs. 11 (pp. 530-547, 576-582), 8 (pp. 392-402).
  - Barro, "Are Government Bonds Net Wealth?" JPE 82, Nov.-Dec. 1974.Lucas and Stokey, "Optimal Fiscal and Monetary Policy in an Economy without Capital," JME 12, July 1983.

Chari and Kehoe, "Sustainable Plans," JPE 98, Aug. 1990.

\* Calvo, "Servicing the Public Debt: The Role of Expectations," *AER* 78, Sept. 1988. Cole and Kehoe, "Self-Fulfilling Debt Crises," *REStud* 67, Jan. 2000.