

Economics 210Ba
Winter 2004

Professor Marjorie Flavin

lectures: Monday and Wednesday, 1:00-2:20, room 300

office: 216

office hours:

email: mflavin@ucsd.edu

Textbooks:

Angus Deaton, Understanding Consumption, Oxford University Press, 1992

Blanchard and Fischer, Lectures in Macroeconomics, MIT Press, 1989

Theoretical Models: Consumption, interest rates, and asset prices

- Jan 5: The consumption/saving decision under uncertainty:
 the Lucas asset pricing model
 Lucas (1978), "Asset Prices in an Exchange Economy,
 Econometrica, 46, 6 (Dec), 1426-1445.
 Blanchard and Fischer, pp 279-291 and 510-512
- Jan 7: the Lucas asset pricing model, continued
- Jan 12: the Lucas asset pricing model, continued
- Jan 14: Deaton, Chapter 1
- Jan 19: Risk Aversion and Intertemporal Substitution
 Kreps and Porteus, 1978, "Temporal Resolution of Uncertainty and
 Dynamic Choice Theory", Econometrica, 46, 185-200.
 Epstein and Zin, 1989, "Substitution, Risk Aversion and the
 Temporal Behavior of Consumption and Asset Returns:
 A Theoretical Framework", Econometrica, 57, 937-69.
 Epstein and Zin, 1991, "Substitution, Risk Aversion and the Temporal
 Behavior of Consumption and Asset Returns: An Empirical
 Analysis", Journal of Political Economy, 99, 263-86.
- Jan 21: The CAPM and the Consumption- β model
 Blanchard and Fischer, pp 506-510.

- Deaton, 1991, "Saving and Liquidity Constraints", Econometrica, 59, 1221-48.
- Caballero, 1990, "Consumption Puzzles and Precautionary Savings", Journal of Monetary Economics, 25, 451-467.
- Adjustment", JPE, 101 (2) pp. 107-17.
- Flavin, Marjorie, and Takashi Yamashita (2002). "Owner-Occupied Housing and the Composition of the Household Portfolio", AER, 92, pp. 345-362.
- Flavin, Marjorie (2003) "A Model of Housing in the Presence of Adjustment Costs: A Structural Interpretation of Habit Persistence".

Final exam: 1.5 hour exam to be given sometime during the week of February 9.

**Economics 210B - Second Half
Macroeconomics**

210B focuses on the microfoundations of the determinants of key aggregate variables, such as consumption, investment, employment, output, and asset prices. The first half of 210B discussed consumption in the Ramsey model, as well as various aspects of consumer behavior and asset prices. The second half of 210B studies labor markets and investment. * indicates required reading.

I. Labor Markets

A. Neoclassical Approaches

* Olivier Blanchard and Stanley Fischer, *Lectures on Macroeconomics*, 1989, pp. 337-341.

* Thomas MaCurdy, "An Empirical Model of Labor Supply in a Life-Cycle Setting," *Journal of Political Economy*, December 1981, 1059-1085.

James Heckman, "Comments on the Ashenfelter and Kydland Papers," in *Carnegie-Rochester Series on Public Policy*, Autumn 1984, 209-223.

Gary D. Hansen, "Indivisible Labor and the Business Cycle," *Journal of Monetary Economics*, 16 (November 1985): 309-327.

Robert Lucas and Leonard Rapping, "Real Wages, Employment and Inflation," *Journal of Political Economy*, 77 (Sept.-Oct 1969): 721-754.

* Thomas Sargent, *Macroeconomic Theory*, 2nd ed., Chapter IX: 1-8.

B. Models with Equilibrium Unemployment

* Carl Shapiro and Joseph Stiglitz, "Equilibrium Unemployment as a Worker Discipline Device," *American Economic Review* June 1984.

* David Romer *Advanced Macroeconomics* Chapter 9: "Unemployment."

Christopher Pissarides, "Short-Run Dynamics of Unemployment, Vacancies and Real Wages," *American Economic Review*, 75 (September 1985): 676-690.

* Fumio Hayashi, "Tobin's Marginal Q and Average Q : A Neoclassical Uncertainty," *American Economic Review* December 1994.

III. Inventory Investment

* Olivier Blanchard, "The Production and Inventory Behavior of the American Automobile Industry," *Journal of Political Economy* 91 (June 1983): 365-400.

* Valerie Ramey and Kenneth West, "Inventories," *Handbook of Macroeconomics*, ed. John Taylor and Michael Woodford, North Holland: 1999.

Kenneth West, "A Variance Bounds Test of the Linear Quadratic Inventory Model," *Journal of Political Economy*, 94 (April 1986): 374-401.

Valerie Ramey, "Inventories as Factors of Production and Economic Fluctuations," *American Economic Review*, June 1989, 338-354.

Valerie Ramey, "Nonconvex Costs and the Behavior of Inventories," *Journal of Political Economy* 99 (April 1991): 306-334.

Mark Bils and James Kahn, "What Inventory Behavior Tells Us About Business Cycles," *American Economic Review* June 2000.