

Economics 210Ba: Macroeconomics
Winter 2006

Professor Marjorie Flavin

lectures: Monday and Wednesday, 8:30-9:50, room 300

office: 216 email: mflavin@ucsd.edu

office hours: Monday and Wednesday, 12:00-1:30 , or drop by anytime in the afternoon

TA: Andra Ghent (aghent@ucsd.edu)

office hours: Wednesday 10-11:00

Textbooks:

- required: David Romer, *Advanced Macroeconomics*, McGraw-Hill, 2006
Angus Deaton, *Understanding Consumption*, Oxford University Press, 1992
not required, but useful to have:
Blanchard and Fischer, *Lectures in Macroeconomics*, MIT Press, 1989

Theoretical Models: Consumption, interest rates, and asset prices

Required readings are indicated with *

- Jan 9: 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 11: the Lucas asset pricing model, continued
*Romer, pp 361-368
- Jan 16: no class (Martin Luther King day)
- Jan 18: *Deaton, Chapter 1
- Jan 23: The CAPM and the Consumption- β model
*Blanchard and Fischer, pp 506-510.
- Jan 25: 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.
*Blanchard and Fischer, pp 506-510.

Empirical models of consumption

- Jan 30: *Deaton, Chapters 3 and 4.
 *Romer, pp 346-361.
 Hall, Robert, “Stochastic Implications of the Life Cycle Permanent Income Hypothesis: Theory and Evidence” JPE, 86 (Dec 1978), 971-987.

Precautionary Saving and Liquidity Constraints

- Feb 1: *Deaton, Chapter 6.
 Deaton, 1991, “Saving and Liquidity Constraints”, Econometrica, 59, 1221-48.
 Caballero, 1990, “Consumption Puzzles and Precautionary Savings”, Journal of Monetary Economics, 113-136.
 *Carroll, 1997, “Buffer Stock Saving and the Life Cycle/Permanent Income Hypothesis”, Quarterly Journal of Economics.
 *Romer, pp 370-380

The equity premium puzzle, habit formation, durable goods

- Feb 6: *Mehra, Rajnish, and Edward Prescott (1985), “The Equity Premium: A Puzzle”, JME 15, 2 (March), 145-162.
 *Constantinides, George (1990), “Habit Formation: A Resolution of the Equity Premium Puzzle”, JPE 98, 3 (June), 519-543.
 Abel, Andrew (1990), “Asset Prices under Habit Formation and Catching up with the Joneses”, AER Papers and Proceedings, 80 (May 1990), 38-42.
 *Dynan, Karen E. (2000), “Habit Formation in Consumer Preferences: Evidence from Panel Data”, AER 90 (June 2000), 391-406.
 *Romer, pp 368-370
- Feb 8: *Grossman, Sanford J., and Laroque, Guy (1990). “Asset Pricing and Optimal Portfolio Choice in the Presence of Illiquid Durable Consumption Goods”, Econometrica, 58, (1) pp 25-51.
 *Caballero, Ricardo J. (1993). “Durable Goods: An Explanation for Their Slow Adjustment”, JPE, 101 (2) pp. 107-17.
 *Flavin, Marjorie, and Shinobu Nakagawa (2005) “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 13.