

**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 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.

## **II. Fixed Investment**

### **A. Fixed Investment under Certainty**

\* Andrew Abel, "Consumption and Investment," in *Handbook of Monetary Economics*, eds. Benjamin Friedman and Frank Hahn. New York: North-Holland, 1990, pp.753-71.

Dale Jorgenson and Robert Hall, "Tax Policy and Investment Behavior," *American Economic Review*, June 1967, 391-414.

\* Fumio Hayashi, "Tobin's Marginal Q and Average Q: A Neoclassical Interpretation," *Econometrica*, 50(1): January 1982, 213-224.

\* David Romer, *Advanced Macroeconomics*, Ch. 8 "Investment."

Robert S. Chirinko, "Business Fixed Investment Spending: Modeling Strategies, Empirical Results, and Policy Implications," *Journal of Economic Literature* 31(December 1993): 1875-1911.

Olivier Blanchard, Changyong Rhee, and Lawrence Summers, "The Stock Market, Profit, and Investment," *Quarterly Journal of Economics*, 108 (Feb. 1993): 115-136.

\* Thomas Sargent, *Macroeconomic Theory*, 2nd ed., Chapter XIV: 4-5.

### **B. The Effect of Uncertainty on Investment**

\* Richard Hartman, "The Effects of Price and Cost Uncertainty on Investment," *Journal of Economic Theory* 5 (October 1972): 258-266.

Andrew Abel, "Optimal Investment Under Uncertainty," *American Economic Review* 73 (March 1983): 228-233.

\* Avinash Dixit and Robert Pindyck, *Investment under Uncertainty*, Princeton University Press, 1994, Chapters 1 and 2.

Andrew Abel and Janice Eberly, "A Unified Model of Investment Under 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.

Valerie Ramey and Daniel Vine, "Declining Volatility in the US Automobile Industry," *American Economic Review* December 2006.