

Economics 210B: Macroeconomics
Winter 2008

Professor Marjorie Flavin

lectures: Tuesday and Thursday, 8:00 – 9:20, room 300

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graduate: to be negotiated

TA: Andra Ghent (aghent@ucsd.edu)

office hours: TBA

Texts:

Angus Deaton, *Understanding Consumption*, Oxford University Press, 1992

David Romer, *Advanced Macroeconomics*, McGraw-Hill, 3rd ed, 2006.

Some of the assigned reading is from:

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

The Blanchard and Fischer text is a useful reference. If you don't want to buy it, however, I have available several copies that I will put on reserve.

Consumption, interest rates, and asset prices

Jan 8: 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

Deaton, Chapter 1.

Jan 10: continued.

Jan 15: The CAPM and the Consumption- β model; the equity premium puzzle

Blanchard and Fischer, pp 506-510.

Mehra, Rajnish, and Edward Prescott (1985), "The Equity Premium: A Puzzle", JME 15, 2 (March), 145-162.

Jan 17: continued

Jan 22: Certainty equivalence and the Permanent Income model

Deaton, Chapters 3 and 4.

Hall, Robert, "Stochastic Implications of the Life Cycle Permanent Income Hypothesis: Theory and Evidence" JPE, 86 (Dec 1978), 971-987.

Jan 24: Precautionary Saving and Liquidity Constraints

Deaton, 1991, "Saving and Liquidity Constraints", *Econometrica*, 59, 1221-48.

Carroll, 1997, "Buffer Stock Saving and the Life Cycle/Permanent Income Hypothesis", *Quarterly Journal of Economics*.

Gourinchas, Pierre-Olivier, and Jonathan Parker, (2002), "Consumption over the Life Cycle", *Econometrica*, 70, 47-89.

Jan 29: continued.

Jan 31: Habit persistence and recursive utility

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.

Epstein and Zin, 1991, "Substitution, Risk Aversion and the Temporal Behavior of Consumption and Asset Returns: An Empirical Analysis", *JPE*, 99, 263-86.

Blanchard and Fischer, pp 506-510.

Feb 5: Durable goods, housing, and adjustment costs

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.

Flavin, Marjorie, and Shinobu Nakagawa (2008) "A Model of Housing in the Presence of Adjustment Costs: A Structural Interpretation of Habit Persistence", *AER* March 2008.

Feb 7: continued.

Feb 12: **Midterm exam**

Feb 14: Labor Markets

Blanchard and Fischer, pp 337-341.

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

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

- Feb 19: continued.
- Feb 21: Models of unemployment
 Romer, pp. 437-488.
 Shapiro, Carl and Stiglitz, Joseph, "Equilibrium Unemployment as a Worker Discipline Device, AER, June 1984.
 Pissarides, Christopher, "Short-Run Dynamics of Unemployment, Vacancies and Real Wages, AER, September 1985: pp. 676-690.
- Feb 26: continued.
- Feb 28: continued.
- March 4: Investment under certainty
 Romer, pp. 386-432.
 Fumio Hayashi, "Tobin's Marginal Q and Average Q: A Neoclassical Interpretation", *Econometrica*, 50(1): January 1982, pp. 213-224.
 Blanchard, Olivier, Changyong Rhee, and Lawrence Summers, "The Stock Market, Profit, and Investment," QJE, 108(February 1993): 115-136.
- March 6: continued.
- March 11: Investment under uncertainty
 Dixit, Avinash, and Robert Pindyck, *Investment under Uncertainty*, Princeton University Press, 1994, Chapters 1 and 2.
 Abel, Andrew, and Janice Eberly, "A Unified Model of Investment under Uncertainty," AER, December 1984.
 Ramey, Valerie, and Kenneth West, "Inventories", *Handbook of Macroeconomics*, ed. John Taylor and Michael Woodford, North Holland: 1999.
- March 13: continued.
- March 20 (Thursday) 8:00 – 11:00 am: **Final exam**