

Eco 2021H: Macro Theory I (2011)
University of Toronto

Classes:

9am-11am, Monday (SS 2110) and Wednesday (WW 119)

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Instructor: Professor Shouyong Shi

Office: GE 268

Office hours: Monday (3:15-4:45pm), or by appointment.

Course website: <http://sites.google.com/site/shouyongsite/>

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(Note: To avoid confusion that is often created by email messages, I will not answer any question sent by email that will require more than two lines of answers. For longer questions, please come to the office hours or at a time set up by appointment.)

Description of the Course:

This is the second part of the first core course (PhD) in macroeconomics. The course is intended to achieve two objectives. One is to introduce students to a selected set of macroeconomic issues, and the other is to demonstrate how to use analytical models and techniques to examine the issues. Both the issues and the models should be treated as important components of the course. While the issues provide the motivations for the analysis, the models provide the necessary abstraction to make the analysis tractable and consistent. Because of the limited time, we will only cover a small number of papers in detail. Students should read the selected papers carefully, work through them in detail, and evaluate them critically. To obtain the maximum benefit from the course, however, students should also read the related paper. Questions during the lecture and outside the class are encouraged.

Evaluation and Assessment:

- Two Assignments: (15% each)
 - A due date will be specified for each assignment. Assignments handed in after the due date will not be accepted. If acceptable reasons (such as medical ones) prevent a student from handing in an assignment before or on the due date, the weight for that assignment will be re-assigned to the final exam.
- Final Examination: 70%.

- Try to avoid missing the final exam. A make-up exam is not only very costly, but also difficult to be set up in such a way to ensure complete comparability with the original exam.

Reading List

1. Diamond, P., 1965, "National debt in a neoclassical growth model," *American Economic Review* 55, 1126-1150.
2. Blanchard, O., 1985, "Debt, Deficits, and Finite Horizons," *Journal of Political Economy* 93, 223-247.
3. Lucas, R.E., 1972, "Expectations and the neutrality of money," *Journal of Economic Theory* 4, 103-124.
4. Mehra, R. and E.C. Prescott, 1985, "The equity premium: a puzzle," *Journal of Monetary Economics* 15, 145-161.
5. Rietz, T., 1988, "The equity risk premium: a solution," *Journal of Monetary Economics* 22, 117-131.
6. Barro, R.J., 2006, "Rare disasters and asset markets in the twentieth century," *Quarterly Journal of Economics* 121, 823-866.
7. Lucas, R.E., 1990, "Liquidity and interest rates," *Journal of Economic Theory* 50, 237-264.
8. Diamond, D. and P. Dybvig, 1983, "Bank runs, deposit insurance and liquidity," *Journal of Political Economy* 91, 410-419.
9. Peck, J. and K. Shell, 2003, "Equilibrium bank runs," *Journal of Political Economy* 111, 103-123.
10. Williamson, S., 1987, "Costly monitoring, loan contracts and equilibrium credit rationing," *Quarterly Journal of Economics* 102, 135-146.
11. Greenwald, B. and J. Stiglitz, 1993, "Financial market imperfections and business cycles," *Quarterly Journal of Economics* 108, 77-114.
12. Bernanke, B. and M. Gertler, 1989, "Agency costs, net worth, and business fluctuations," *American Economic Review* 79, 14-31.
13. Bernanke, B., Gertler, M. and S. Gilchrist, 1999, "The financial accelerator in a quantitative business cycle framework," in J.B. Taylor and M. Woodford (eds.), *Handbook of Macroeconomics*, vol. 1 (pp 1341-1393), North-Holland, Amsterdam.
14. Kiyotaki, N. and J.H. Moore, 1997, "Credit cycles," *Journal of Political Economy* 105, 211-248.
15. Kiyotaki, N. and R. Wright, 1991, "A contribution to the pure theory of money," *Journal of Economic Theory* 53, 215-235.