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ECO 2031 - Macroeconomic Theory II

SYLLABUS

Objectives

This course covers important models in consumption and savings literature, especially those which include heterogeneity due to income risk and incomplete insurance markets. The main focus of the course will be on quantitative analysis of these models. The students will learn computational techniques and programming in MATLAB.

Lectures: Tuesday 9-11am (BA2155) and Thursday 9-11am (BA2195).

Office Hours:

My office hours are on **Thursdays 11:00-12:00pm** in my office. Outside my office hours you can contact me via e-mail at burhan.kuruscu@utoronto.ca, *although* at busy times you will get a prompter response if you stop by during the office hours.

Required Material:

You are required to obtain a version of **MATLAB**. Student version is available at $99.00 at the following link:

http://www.mathworks.com/academia/student_version/

E-mail list: You are automatically added to the class email list if you are registered for this course. This email list will be the main way I will make announcements and communicate with the class.

Blackboard: Please check the blackboard frequently for course materials and announcements.

Course Requirements and Grading

Two projects: First project will be 40% and the second 60% of the total grade in this section. The first project can be done in groups of two students. The second one should be done individually.

Class Participation: You should feel comfortable to ask any questions if you cannot follow my lectures or you do not understand something.

Schedule:

- **Neo-Classical Growth Model**
    - Analytical Solution with LOG Utility and Full Depreciation
    - Numerical Solution: Brute Force Discrete Space Dynamic Programming Method
    - Stochastic Neo-Classical Growth Model
        - Discretizing an AR(1) process
- **Models with Heterogeneity**
    - Distribution of wealth and the behavior of aggregates under complete markets
    - Huggett, M. "The risk free rate in heterogeneous-agents, incomplete insurance economies," Journal of Economic Dynamics and Control, 1993, 17 (5/6), 953-970.
    - A simple model of bond pricing.
    - Aiyagari, S. R. "Uninsured idiosyncratic risk, and aggregate saving." Quarterly Journal of Economics, 1994, Vol. 109, 659—684.
    - Krusell, P. and A. Smith, " Income and wealth heterogeneity in the macroeconomy," Journal of Political Economy, 1998, Vol. 106, pp. 867-896.
    - Krueger, D. and F. Perri, "Does Income Inequality Lead to Consumption Inequality? Evidence and Theory," Review of Economic Studies, 2006, Vol. 73(1), 163-93.
    - Arrelano, C. "Default Risk and Income Fluctuations in Emerging Economies," American Economic Review, June 2008.