

**University of Toronto**  
**Department of Economics**  
**ECO 2061H L0201**  
**Economic Theory – Macroeconomics (MFE)**  
**Winter 2013**

<b>Instructor</b>	Professor George J. Georgopoulos
<b>Office</b>	TBA, Max Gluskin House, 150 St. George Street
<b>Contact</b>	Email: georgop@chass.utoronto.ca, Phone: (416) TBA
<b>Lecture Hours</b>	Every Thursday, 11:00 - 1:00 p.m., at GE 100.
<b>Tutorials</b>	Tuesdays 12:00 - 2:00 p.m., at GE 100.
<b>Office Hours</b>	Tuesday, 11:00 a.m. - 12:00 p.m. Thursday 10am-11am, or by appointment.
<b>Teaching Assistant</b>	The TA is David Cimon. He will hold 2 hours of office hours per week, TBA.
<b>Course Description</b>	<p>The objective of this course is to introduce you to the study of macroeconomics at the advanced level. This means that we will use rigorous models and employ (dynamic) optimization techniques to present and analyze macroeconomic theories. A common theme across the models we will study is that economic aggregates are the equilibrium result of the optimizing decisions made by rational agents at the individual level. We will employ this rigorous approach, not as an end in itself, but as a means to obtain disciplined insights into the important questions that trouble macroeconomists. The topics we will cover include economic growth, business fluctuations, consumption and investment, employment and unemployment, and fiscal and monetary policy.</p>
<b>Textbook</b>	The required textbook is <i>Advanced Macroeconomics</i> (4 <sup>th</sup> Edition), by David Romer, McGraw Hill, 2012.
<b>Other References</b>	<ul style="list-style-type: none"><li>• Obstfeld M. and K. Rogoff (1996), <i>Foundations of International Macroeconomics</i>, MIT Press.</li><li>• Cooley, T. (1995), <i>Frontiers of Business Cycle Research</i>, Princeton University Press.</li><li>• Pissarides, C. (2000), <i>Equilibrium Unemployment Theory</i>, MIT Press.</li></ul>
<b>Evaluation</b>	<p>Assignments (worth total 15%): 2 assignments on dates TBA</p> <p>Midterm Test (worth 35%): <u>February 28, 2013</u></p> <p>Final Exam (worth 50%): <u>April exam period</u></p> <p>The problem sets must be handed in on the pre-specified dates. No late submissions will be accepted. If a problem set is not handed in on time, for a justified and documented reason, the weight will shift to the final exam.</p>

The midterm test will be held during class time. There will be no make-up exam for the midterm test. If you provide appropriate and timely documentation for missing the midterm, the weight will be transferred to the final exam.

The final exam will be held at a date and location to be set by the University. The final exam will include all the material covered in the course.

# Preliminary List of Topics and Readings List

## INTRODUCTION

## ECONOMIC GROWTH I

### Stylized Facts

Romer, Ch.1, pp.6-10.

Pritchett, Lant (1997), "Divergence, Big Time", *Journal of Economic Perspectives*, 11(3), pp.3-17.

McGrattan, Ellen and James Schmitz Jr. (1999), "Explaining Cross-Country Income Differences", *Handbook of Macroeconomics*, Vol. 1A, North-Holland. – Section 2, pp.6-10.

Jones, Charles (2002), *Introduction to Economic Growth*, (2002), 2<sup>nd</sup> Edition, W.W. Norton and Company Inc. - Chapter 1.

### Growth Theory I

- ***Solow Growth Model***

Romer, Ch.1, pp.10-37.

Mankiw, Gregory, David Romer, and David Weil (1992) "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, vol. 107, pp. 407-437.

### Cross - Country Income Differences

Romer, Ch.4.

Caselli, Francesco (2005), Accounting for Cross-Country Income Differences, *Handbook of Economic Growth*, Ch.9, Philippe Aghion and Steven Durlauf (eds.), Elsevier.

Hall, Robert E. and Charles I. Jones (1999), "Why Do Some Countries Produce so much more Output per Worker than Others?," *Quarterly Journal of Economics*, Vol.114, No.1, pp.83-116.

Restuccia, Diego, and Carlos Urrutia (2001), "Relative Prices and Investment Rates," *Journal of Monetary Economics*, Vol.47 (1), pp.93-121.

Klenow, Peter J. and Andres Rodriguez-Clare (1997), "The Neoclassical Revival in Growth Economics: Has it Gone Too Far?," in Ben S. Bernanke and Julio J. Rotemberg, eds., *NBER Macroeconomics Annual 1997*, Cambridge, MA: MIT Press

Easterly, William, and Ross Levine (2001), "It's Not Factor Accumulation: Stylized Facts and Growth Models" *World Bank Economic Review*, 15(2).

Acemoglu, Daron, Simon Johnson and James A. Robinson (2005), "Institutions as the Fundamental Cause of Long-Run Growth," *Handbook of Economic Growth* (Philippe Aghion and Stephen Durlauf, eds., North Holland). – Introduction.

## NOMINAL RIGIDITY

- ***Exogenous Nominal Rigidity***

Romer, 6.1-6.3

- ***Microeconomic Foundations of Incomplete Nominal Adjustment***

Romer 6.9 (The Lucas Imperfect Information Model)

## CONSUMPTION AND INVESTMENT

Romer, Ch.8.1 and 8.2

Romer, Ch.9.1, 9.2,9.3

Lucas, Robert (1978), "Asset Prices in Exchange Economy," *Econometrica* 46, pp. 1426-1445.

## **UNEMPLOYMENT/EMPLOYMENT**

Romer, Ch.10.1, 10.2

Pissarides, C. (2000), *Equilibrium Unemployment Theory*, Ch.1.

Rogerson, Richard (2001), "The Employment of Nations – A Primer," *Economic Review*, Federal Reserve Bank of Cleveland.

Ljungqvist, Lars, and Thomas J. Sargent (1998), "The European Unemployment Dilemma," *Journal of Political Economy*, 106, pp.514-550.

Prescott, Edward C. (2004), "Why Do Americans Work So Much More Than Europeans?" *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol.28, No.1, pp.2-13.

## **INFLATION AND MONETARY POLICY**

Romer, Ch.11.1, 11.2

Kydland, Finn, and Edward Prescott (1977), "Rules Rather Than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy*, 85(3), pp.473-492.

## **FINANCIAL FACTORS AND BUSINESS CYCLES**

Christiano, Lawrence, Roberto Motto, and Massimo Rostagno (2010), "Financial Factors and Economic Fluctuations," European Central Bank Working Paper Series No. 1192.

Bernanke, Ben S. and Mark Gertler. 1995. "Inside the Black Box: The Credit Channel of Monetary Policy Transmission" (in Symposia: The Monetary Transmission Mechanism) *The Journal of Economic Perspectives*, Vol. 9, No. 4. (Autumn), pp. 27-48.

Bernanke, Ben, Mark Gertler, and Simon Gilchrist, 1996. "The Financial Accelerator and the Flight to Quality." *Review of Economics and Statistics* 78.1: 1-15.

Mark Gertler, "Financial Structure and Aggregate Economic Activity: An Overview", *Journal of Money, Credit and Banking* 20 (1988): 559-588.

Reinhart, V. , "A Year of Living Dangerously: The Management of the Financial Crises in 2008", *Journal of Economics Perspectives*, Winter 2011, Vol. 25, No.1.

Mishkin, F., "Over the Cliff: From Subprime to the Global Financial Crisis", *Journal of Economics Perspectives*, Winter 2011, Vol. 25, No.1.

Rajan, R.G., "Has Financial Development Made the World Riskier?", *The Greenspan Era: Lessons for the Future*, pp. 313-69. Kansas City: Federal Reserve Bank of Kansas City, 2005

## **FISCAL POLICY AND SOVEREIGN DEBT**

Romer, Ch.12.1, 12.2

Lane, P.R. (2012), "The European Sovereign Debt Crisis", *The Journal of Economic Perspectives*, Summer, pp49-68.

Eggertsson, Gauti (2009), "What Fiscal Policy is Effective at Zero Interest Rates?" New York Fed Staff Report No. 402.

Sargent, Thomas J. (2012), "United States Then, Europe Now," Nobel Prize Lecture.

Correia, Isabel, Emmanuel Farhi, Juan Pablo Nicolini, and Pedro Teles (2011), "Unconventional Fiscal Policy at the Zero Bound," Manuscript, Harvard University.

## **ECONOMIC GROWTH II**

- **Ramsey, Cass, Koopmans Model**

Romer, Ch.2, pp.49-77.

- **Overlapping Generations Model**

Romer, Ch.2, pp.77-93.

Rebelo, Sergio (1991), "Long Run Policy Analysis and Long Run Growth," *Journal of Political Economy*, 99, pp.500-521.

Obstfeld and Rogoff, Ch.7, pp.473-478.

Romer, P., (1994), "The Origins of Endogenous Growth", *Journal of Economic Perspectives*, Winter, pp.3-22.

Romer, Ch.3, pp. 121-123.

## **REAL BUSINESS CYCLES THEORY**

Romer, Ch.5.

Cooley, Thomas, and Edward Prescott (1995), "Economic Growth and Business Cycles," Ch.1, in *Frontiers of Business Cycle Research*, by T.Cooley (ed), Princeton University Press.

Prescott, Edward (1986), "Theory Ahead of Business Cycle Measurement," *Federal Reserve Bank of Minneapolis Quarterly Review*, Fall, 9-22

King, Robert, and Sergio Rebelo (2000), "Resuscitating Real Business Cycles," in *Handbook of Macroeconomics*, by J.Taylor and M.Woodford, North-Holland.