

**University of Toronto**  
**Department of Economics**  
**ECO 2061H L0201**  
**Economic Theory – Macroeconomics (MFE)**  
**Winter 2014**

<b>Instructor</b>	Professor George J. Georgopoulos
<b>Office</b>	Room 242, Max Gluskin House, 150 St. George Street
<b>Contact</b>	Email: georgop@chass.utoronto.ca
<b>Lecture Hours</b>	Wednesday, 9:00 - 11:00 a.m., GE106.
<b>Tutorials</b>	Tuesday 11:00 a.m-1pm., at GE106.
<b>Office Hours</b>	Tues. 11:00 -12pm., Wed. 11- 12pm, 3-4pm, or by appointment.
<b>Teaching Assistant</b>	The TA is <u><a href="#">Erhao Xie</a></u> . He will hold office hours every week, and hold tutorials.

**Course Description**

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 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 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. We will also focus on issues related to financial market frictions and their consequences to the real sector of the economy, with direct application to the most recent financial crises experienced in the United States and the Euro area.

### **Textbook**

The required textbook is *Advanced Macroeconomics* (4<sup>th</sup> Edition), by David Romer, McGraw Hill, 2012.

### **Other References**

- Obstfeld M. and K. Rogoff (1996), *Foundations of International Macroeconomics*, MIT Press.
- Cooley, T. (1995), *Frontiers of Business Cycle Research*, Princeton University Press.
- Pissarides, C. (2000), *Equilibrium Unemployment Theory*, MIT Press.

### **Evaluation**

Assignments (2 in total, worth total 15%): Due Feb. 14 and  
April 4, 2pm.

Midterm Test (worth 35%): February 28, 2014, 11am

Final Exam (worth 50%): April exam period

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.

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, with a heavier emphasis on material covered after the midterm.

# List of Topics and Readings List

Topics with an asterisk (\*) will be covered in class

## ECONOMIC GROWTH

### 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

- ***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.4.1

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.

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)

## **INFLATION AND MONETARY POLICY**

\*Romer, Ch.11.1, 11.2

\*Inflation, the Phillips Curve, and Central Bank Commitment (Lecture Notes)

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 MARKETS AND CREDIT MARKET IMPERFECTIONS**

\*Intertemporal Choice and the Investment Decision: Fisher Separation Theorem,  
T. Copland, F. Weston, and K. Shastri, "Financial Theory and Corporate Finance", Pearson Addison Wesley, 2005. 2005

\*Credit Market Imperfections and Consumption (Lecture Notes)

\*Romer, 9.9 Financial Market Imperfections and Investment

Romer, Epilogue.

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.

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

Brunnermeier, M., "Deciphering the Liquidity and Credit Crunch 2007-2008", *Journal of Economic Perspectives*, Winter 2009.

Victoria Ivashina and David S. Scharfstein, "Bank Lending During the Financial Crisis of 2008," *Journal of Financial Economics*, September 2010. pp. 319-338.

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

## **INTERNATIONAL ECONOMICS**

\*The Open Economy and the Current Account, Chapter 1.3, *Foundations of International Macroeconomics*, Obstfeld and Rogoff, 1996, MIT Press

\*Ben Bernanke, "Remarks by Governor Ben S. Bernanke: The Global Saving Glut and the U.S. Current Account Deficit," March 10, 2005. Available at: <http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm>

Olivier Blanchard and Gian Maria Milesi-Ferretti, "Policy Corner: (Why) Should Current Account Balances Be Reduced?" *IMF Economic Review* (No. 1, 2012).

Maurice Obstfeld, "Does the Current Account Still Matter?" *American Economic Review* (May 2012), pp. 1-23.

## **FISCAL POLICY AND SOVEREIGN DEBT**

\*Romer, Ch.12.1

\*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.

## **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.