

University of Toronto  
Department of Economics  
Course Outline  
ECO438H1F

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Times and location: We will meet every Wednesday from 10-12 in SS 2129.

Office Hours: By appointment

Grading Scheme: There will be one term test for all students, held during class time on October 23. It will make up 50% of the final course grade. The remainder of the final mark will be determined as follows:

During the final weeks of class, you will be required to do a presentation on a paper assigned from section 4 of the reading list. The presentation should summarize the main points in the paper and explain how the paper contributes to the literature. This presentation will be approximate 15 minutes in length and will be graded on your presentation skills and understanding of the material. The presentation will be 15% of your final grade. The final 35% of the grade will be determined by a literature review that will be based on topics I will assign to you during the third week of classes. The literature review will be due in class Nov 26.

**\*\*Copies of all presentation materials should be provided to me no later than three days in advance of the presentation.**

Other important dates:

Nov 4, 2013: Last day to drop courses with F section codes from academic record and GPA. After this deadline a mark is recorded for each course, whether course work is completed or not (a 0/zero is assigned for incomplete work), and calculated into the GPA.

Nov. 26: last day of classes.

## Topics and Relevant Readings for weeks 1-8

### 1. Baseline Neoclassical Business Cycle Model

- D. Romer, Advanced Macroeconomics, Chapter 4
- Frontiers of Business Cycles: Introduction

### 2. Solution techniques:

- Cocharne's notes
- Christiano, Lawrence. (1998). "Solving Dynamic Equilibrium Models by a Method of Undetermined Coefficients", Technical Working Paper 225, NBER, Cambridge, Mass. (Can be downloaded from [www.nber.org](http://www.nber.org))

### 3. Baseline Monetary business cycle models

- Christiano, Lawrence, Martin Eichenbaum and Charles Evans. (1997). "Sticky Price and Limited Participation Models of Money: A Comparison", *European Economic Review* 41, 1201-49
- Christiano, L.J., Eichenbaum, M. and C. Evans 2005, "Nominal rigidities and the dynamic effects of a shock to monetary policy", *Journal of Political Economy*, 113(1), 1-46.
- Frank Smets & Rafael Wouters, 2007. "Shocks and Frictions in US Business Cycles: A Bayesian DSGE Approach," *American Economic Review*, vol. 97(3), 586-606.

### 4. Exploring Some Sources of business cycles:

#### *Monetary Policy Shocks*

- Christiano, Lawrence J. & Eichenbaum, Martin & Evans, Charles L., 1999. "Monetary policy shocks: What have we learned and to what end?," *Handbook of Macroeconomics*, in: J. B. Taylor & M. Woodford (ed.), *Handbook of Macroeconomics*, edition 1, volume 1, chapter 2, pages 65-14

#### *Technology shocks and business cycles*

- Basu, Susanto, John Fernald and Miles Kimball. "Are Technology Improvements Contractionary?" Manuscript, University of Michigan, 2004 (also available from [www.nber.org](http://www.nber.org) as a working paper).
- Gali, Jordi. "Technology, Employment, and the Business Cycle: Do Technology Shocks Explain Aggregate Fluctuations?" *American Economic Review* 89 (March 1999), 249-71.
- Christiano, Lawrence, Martin Eichenbaum and Robert Vigfussen. 2004. "What happens after a technology shock?" Manuscript, Northwestern University. (download from <http://www.faculty.econ.northwestern.edu/faculty/eichenbaum/>)
- Shea, John , 1998. "What Do Technology Shocks Do?" *NBER macroeconomics annual* 1998. pp. 275-310
- Alexopoulos, Michelle. 2011 "Read all about it!! What happens following a technology shock?" *American Economic Review*

#### *Investment specific shocks*

- Greenwood, Jeremy & Hercowitz, Zvi & Krusell, Per, 2000. "The role of investment-specific technological change in the business cycle," *European Economic Review*, Elsevier, vol. 44(1), 91-115.
- Jonas D. M. Fisher, 2006. "The Dynamic Effects of Neutral and Investment-Specific Technology Shocks," *Journal of Political Economy* vol. 114(3), 413-451.
- *Anticipated technology shocks (News shocks)*
- Beaudry, Paul & Portier, Franck, 2004. "An exploration into Pigou's theory of cycles," *Journal of Monetary Economics*, Elsevier, vol. 51(6), pages 1183-1216
- Paul Beaudry & Franck Portier, 2006. "Stock Prices, News, and Economic Fluctuations," *American Economic Review*, American Economic Association, vol. 96(4), pages 1293-1307
- Nir Jaimovich & Sergio Rebelo, 2009. "Can News about the Future Drive the Business Cycle?," *American Economic Review*, American Economic Association, vol. 99(4), pages 1097-1118

#### *Fiscal Policy Shocks*

- Christiano, Lawrence J & Eichenbaum, Martin, 1992. "Current Real-Business-Cycle Theories and Aggregate Labor-Market Fluctuations," *American Economic Review* vol.

82(3), pages 430-50

- Edelberg, Wendy, Martin Eichenbaum and Jonas Fisher. 1999. "Understanding the effects of a Shock to Government Purchases", *Review of Economic Dynamics* 2,166-206
- Ramey, V. and M. Shapiro.1997. "Costly Capital Reallocation and the Effects of Government Spending.", Carnegie Rochester Conference on Public Policy.
- Ramey, V. 2011. Identifying Government Spending Shocks: It's All in the Timing," *Quarterly Journal of Economics* 126, 1-50.

\*\*\*\*\*Most of the published papers on this list can be downloaded from Jstor and/or the other electronic sources available through the UofT library. The other reading material (chapters in the books) can be picked up for photocopying from my office.