

# ECO2061H

Economic Theory-Macroeconomics (MA)  
2015 Winter

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## 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 (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.

## Textbooks

- Advanced Macroeconomics (4th Edition), by David Romer, McGraw Hill, 2012.
- Frontiers of Business Cycle Research, by Cooley, T. (1995), Princeton University Press.
- Big Ideas in Macroeconomics: A Nontechnical View, by Kartik B. Athreya (2014), MIT Press

## Evaluation

- 2 Assignments (10%) + Midterm (40%) + Final (50%)
- The assignments 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.
- 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.

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Serdar Ozkan

[serdar.ozkan@utoronto.ca](mailto:serdar.ozkan@utoronto.ca)

Office: Max Gluskin House, 230  
Office Hours: Thursdays, 2-4pm,  
or by appointment.

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## Lecture Hours

- Every other Tuesday, 2-4pm, at WI 1017: Jan 6, Jan 20, Feb 3, Feb 24, Mar 10, Mar 24
- Wednesdays, 2-4pm, at ES B142

## Tutorials

- Every other Tuesday, 2-4pm, at WI 1017: Jan 13, Jan 27, Feb 10, Mar 3, Mar 17, Mar 31

## Teaching Assistant

- Stephen Ayerst
- [stephen.ayerst@mail.utoronto.ca](mailto:stephen.ayerst@mail.utoronto.ca)
- Office Hours: Mondays, 3-5pm, at GE313

## Milestones

- Assignment #1: TBA
- Midterm Exam: February 25
- Assignment #2: TBA
- Final Exam: TBA

## Course Website

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[TEACHING.serdarozkan.me](http://TEACHING.serdarozkan.me)

The website will be used extensively for posting announcements, lecture notes, and problem sets. Please consult it on a regular basis.

# Preliminary (and Tentative) List of Topics and Reading List\*

## Week #1: Introduction and Modern Macroeconomics Framework

- Prescott E.C., The Transformation of Macroeconomic Policy and Research, 2004 Nobel Prize Lecture.
- Jesus Fernandez-Villaverde and Dirk Krueger, Macroeconomics Notes: Chapter 4 and Chapter 5.
- Dirk Krueger, Macroeconomic Theory: Chapter 2

## Week #2: Solow Growth Model

- David Romer, Advanced Macroeconomics: Chapter 1

## Week #3: Neoclassical growth model and Overlapping Generations Model

- David Romer, Advanced Macroeconomics: Chapter 2
- Dirk Krueger, Macroeconomic Theory: Chapter 3 and Chapter 8

## Week #4: Endogenous Growth Models: The AK Model, Human Capital Model, R&D Model

- David Romer, Advanced Macroeconomics: Chapter 3
- Jesus Fernandez-Villaverde and Dirk Krueger, Macroeconomics Notes: Chapter 4 and Chapter 9.

## Week #4: Cross-country Income Differences

- David Romer, Advanced Macroeconomics: Chapter 4
- 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
- Pritchett, Lant (1997), "Divergence, Big Time", Journal of Economic Perspectives, 11(3), pp.3-17.
- Acemoglu, Daron, and Robinson, James A. 2000. "Political Losers as a Barrier to Economic Development." American Economic Review 90 (May): 126–130.
- Albouy, David. 2008. "The Colonial Origins of Comparative Development: An Investigation of the Settler Mortality Data." National Bureau of Economic Research Working Paper No. 14130.
- Caselli, Francesco, and Feyrer, James. 2007. "The Marginal Product of Capital." Quarterly Journal of Economics 122 (May): 535–568.
- Hsieh, Chang-Tai, and Klenow, Peter J. 2009. "Misallocation and Manufacturing TFP in China and India." Quarterly Journal of Economics, 124 (4): 1403-1448.
- Jones, Benjamin F., and Olken, Benjamin A. 2005. "Do Leaders Matter? National Leadership and Growth since World War II." Quarterly Journal of Economics 120 (August): 835–864.
- David Lagakos 2013. Explaining Cross-Country Productivity Differences in Retail Trade, Journal of Political Economy
- Pritchett, Lant. 2000. "The Tyranny of Concepts: CUDIE (Cumulated, Depreciated, Investment Effort) is Not Capital." Journal of Economic Growth 5 (December): 361–384.
- Schmitz, James A., Jr. 2005. "What Determines Productivity? Lessons from the Dramatic Recovery of the U.S. and Canadian Iron Ore Industries Following Their Early 1980s Crisis." Journal of Political Economy 113 (June): 582–625.

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\* This list will be regularly updated on the website.

## **Week #5 and #6: Real Business Cycle Theory**

- David Romer, Advanced Macroeconomics: Chapter 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.

## **Week #7 and #8: Dynamic New Keynesian Models**

- David Romer, Advanced Macroeconomics: Chapter 7

## **Week #9 and #10: Unemployment and Labor Search Models**

- David Romer, Advanced Macroeconomics: Chapter 10

## **Week #11: Consumption and Saving and Investment**

- David Romer, Advanced Macroeconomics: Chapter 8 and Chapter 9

## **Week #12: Fiscal Policy**

- David Romer, Advanced Macroeconomics: Chapter 12