University of Toronto
Department of Economics

# ECO2031H

Macroeconomic Theory-II (PhD), 2017 Winter

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or by appointment.

## Course Description

This course is the third in 1st year PhD macroeconomics sequence and complements its predecessor ECO2030. The ultimate goal of this course is to learn how to develop a variety of quantitate models (that can be used to generate artificial data of both allocations and prices which can be meaningfully mapped to actual data) to give answers to macroeconomic questions. In this course, most (if not all) of the material will be studied from the strict theoretical point of view and the emphasis is on *economic rigor*. So, we will neither look at data in any serious manner nor computationally solve the models. Furthermore, this course is not a survey of topics in macroeconomics: The objective is not to give a review of known results of a specific topic but rather to give an example of how to use modern macroeconomic tools to tackle questions.

## Textbooks and Papers

- Frontiers of Business Cycle Research, by Cooley, T. (1995), Princeton University Press.
- Recursive Methods in Economic Dynamics, by Stokey and Lucas with Prescott, Harvard University Press.
- Recursive Macroeconomic Theory, by Ljungqvist and Sargent, The MIT Press.
- None of these books are required. I will post my slides I will benefit from teaching material of Victor Rios-Rull, Dirk Krueger, Chris Carroll, Fabrizio Perri in my slides.
- The papers that I cite (in a very incomplete form below) are not to be read in general, although some students may find them useful.

## Evaluation

- The final exam will be held at on February 14, 2017.
- In the context of the course, I will occasionally assign some homework questions. But these are not required.
- Class participation may affect your final grade in some special circumstances.

## Lecture Hours

- Tuesdays and Thursdays, 9-11am, at GE100

## Tutorials

- TBA

## Teaching Assistant

- Stephen Ayerst
- stephen.ayerst@mail.utoronto.ca
- Office Hours: TBA

## Final Exam

- February 14, Tuesday, 9-11am, GE100

## Course Website

TEACHING.serdarozkan.me

The website will be used extensively for posting announcements, lecture notes, problem sets, and solutions. Please consult it on a regular basis. The documents on the website are password protected.

Password: phd2017

# Preliminary List of Topics and Reading List

**Week #1: Introduction, Modern Macroeconomics Framework, Exogenous Growth Models (Solow and Neo-classical growth models)**

• Prescott E.C., The Transformation of Macroeconomic Policy and Research, 2004 Nobel Prize Lecture.

**Week #2: Endogenous Growth Models (AK Model, Human Capital Model, Romer's R&D Model)**

• Robert E. Lucas, Jr., Why Doesn't Capital Flow from Rich to Poor Countries? The American Economic Review Vol. 80, No. 2

• PM Romer, Endogenous Technological Change, Journal of Political Economy, 1990

**Week #2 and #3: Business Cycle Facts, real business cycle theory, variants of the neo-classical growth model.**

• Stochastic Growth Models and Variants

• Dirk Krueger, Quantitative Macroeconomics: An Introduction

• Gary D. Hansen, "Indivisible labor and the business cycle", JME 1985

• Nicholas Bloom, "THE IMPACT OF UNCERTAINTY SHOCKS", Econometrica, 2009

**Week #4: Lucas tree model**

**Week #5: Economies with Heterogenous Agents: Measure Theory and Industry equilibrium**

• Chapter 11 and 12: Recursive Methods in Economic Dynamics, by Stokey and Lucas with Prescott, Harvard University Press.

• Hugo A. Hopenhayn, "Entry, Exit, and firm Dynamics in Long Run Equilibrium", Econometrica 1992

**Week #6: Life-Cycle models with heterogeneous agents and standard incomplete markets (SIM) model, consumption insurance, idiosyncratic labor income risk.**

• Fatih Guvenen, "Macroeconomics with Heterogeneity: A Practical Guide", Economic Quarterly, 2011

• Jonathan Heathcote, Kjetil Storesletten and Gianluca Violante, "Quantitative Macroeconomics with Heterogeneous Households", Annual Review of Economics, 2009

• Grey Gordon, "Optimal Bankruptcy Code: A Fresh Start for Some", 2015

• Chatterjee, Corbae, Nakajima and Ríos-Rull, "A Quantitative Theory of Unsecured Consumer Credit with Risk of Default", Econometrica, 2015

• Fabrizio Perri and Krueger, "Does Income Inequality Lead to Consumption Inequality? Evidence and Theory", 2006, ReStud