

UNIVERSITY OF TORONTO
Department of Economics
ECO 2021H1F – Macroeconomic Theory I
Fall 2010

Instructor: Gueorgui Kambourov
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Time and Location: MW 9-11am, in WW 121.

Office Hours: Mondays, 3pm-4pm; and by appointment.

Grading: There will be homework assignments and an exam. They will count towards your grade as follows:

Assignments	20%
Exam	80%

The exam is scheduled for Monday, October 25, 2010.

Textbooks:

- Stokey, N. L. and R. E. Lucas, with E.C. Prescott. *Recursive Methods in Economic Dynamics*. Harvard University Press, Cambridge, MA. 1989.
- Ljungqvist, L. and T. J. Sargent. *Recursive Macroeconomic Theory, 2nd Edition*. MIT Press, Cambridge, MA. 2004.
- Cooley, T. F. (ed). *Frontiers of Business Cycle Research*. Princeton University Press, Princeton, NJ. 1995.

Tentative Course Outline

1. Dynamic Programming

Stokey and Lucas with Prescott: Ch. 3, 4, 5, 9.

2. Competitive Equilibrium and Pareto Optimality. Arrow-Debreu and Sequential Markets Formulations.

Kehoe, T. (1989). "Intertemporal General Equilibrium Models." In *The Economics of Missing Markets, Information, and Games*. Edited by F. Hahn, Oxford.

Ljungqvist and Sargent: Ch. 8 and Ch. 9.

3. Recursive Competitive Equilibrium. Calibrating the Real Business Cycle Model.

Cooley, T. and E. C. Prescott (1995). "Economic Growth and Business Cycles." In *Frontiers of Business Cycle Research*. Edited by T. Cooley, Princeton University Press, Princeton, NJ.

Ljungqvist and Sargent: Ch. 12.

E. C. Prescott and R. Mehra (1980) "Recursive Competitive Equilibrium: The case of Homogeneous Households," *Econometrica* 48(6), 1365-1379.

4. Economies with Incomplete Markets and Heterogeneous Agents

Rios-Rull, J.-V. (1995). "Models with Heterogeneous Agents." In *Frontiers of Business Cycle Research*. Edited by T. Cooley, Princeton University Press, Princeton, NJ.

Ljungqvist and Sargent: Ch. 17.

R. Aiyagari (1994) "Uninsured Idiosyncratic Risk and Aggregate Saving," *Quarterly Journal of Economics*, 659-684.

G. Hansen and A. Imrohorglu (1992) "The Role of Unemployment Insurance in an Economy with Liquidity Constraints and Moral Hazard," *Journal of Political Economy* 100, 118-42.

M. Huggett (1993) "The Risk Free Rate in Heterogeneous-Agent, Incomplete-Insurance Economies," *Journal of Economic Dynamics and Control*, 17(5-6), 953-969.