

**Eco 2031H: Macro Theory II (2011)**  
University of Toronto

**Classes:**

Time and location: 9am-11am, Tuesday (WW 120) and Thursday (WW 126)

TA: Brian Tavares (brian.tavares@utoronto.ca)

**Instructor:** Professor Shouyong Shi

Office: GE 268

Office hours: Tuesday, 2:30pm-4pm (or by appointment)

Course website: <http://www.chass.utoronto.ca/~shouyong/>

Email: shouyong@chass.utoronto.ca

(Note: To avoid confusion that is often created by email messages, I will not answer any question sent by email that will require more than two lines of answers. For longer questions, please come to the office hours or at a time set up by appointment.)

**Description of the Course:**

This is the first part of the second core course (PhD) in macroeconomics. The course is intended to achieve two objectives. One is to introduce students to a selected set of macroeconomic issues, and the other is to demonstrate how to use analytical models and techniques to examine the issues. Both the issues and the models should be treated as important components of the course. While the issues provide the motivations for the analysis, the models provide the necessary abstraction to make the analysis tractable and consistent. Because of the limited time, we will only cover a small number of papers in detail. Students should read the selected papers carefully, work through them in detail, and evaluate them critically. To obtain the maximum benefit from the course, however, students should also read the related paper. Questions during the lecture and outside the class are encouraged.

**Evaluation and Assessment:**

- Two Assignments: 24% (12% and 12%).

A due date will be specified for each assignment. Assignments handed in after the due date will not be accepted. If acceptable reasons (such as medical ones) prevent a student from handing in an assignment before or on the due date, the weight for that assignment will be re-assigned to the final exam.

- Final Examination: 76%.

Try to avoid missing the final exam. A make-up exam is not only very costly, but also difficult to be set up in such a way to ensure complete comparability with the original exam.

## **Reading List**

### **A. Liquidity and Credit**

1. Diamond, D. and P. Dybvig, 1983, "Bank runs, deposit insurance and liquidity," *Journal of Political Economy* 91, 410-419.
2. Cooper, R. and H. Kempf, 2010, "Deposit insurance without commitment: Wall St. vs. Main St." manuscript, European University Institute and University of Texas-Austin.
3. Williamson, S., 1987, "Costly monitoring, financial intermediation, and equilibrium credit rationing," *Quarterly Journal of Economics* 102, 135-146.
4. Greenwald, B. and J. Stiglitz, 1993, "Financial market imperfections and business cycles," *Quarterly Journal of Economics* 108, 77-114.
5. Bernanke, B. and M. Gertler, 1989, "Agency costs, net worth, and business fluctuations," *American Economic Review* 79, 14-31.
6. Bernanke, B., Gertler, M. and S. Gilchrist, 1999, "The financial accelerator in a quantitative business cycle framework," in J.B. Taylor and M. Woodford (eds.), *Handbook of Macroeconomics*, vol. 1 (pp 1341-1393), North-Holland, Amsterdam.
7. Kiyotaki, N. and J.H. Moore, 1997, "Credit cycles," *Journal of Political Economy* 105, 211-248.
8. Kiyotaki, N. and J.H. Moore, 2008, "Liquidity, business cycles, and monetary policy", manuscript.

### **B. The Labor Market and Business Cycles**

1. Mortensen, D.T. and C.A. Pissarides, 1994, "Job creation and job destruction in the theory of unemployment," *Review of Economic Studies* 61, 397-415.
2. Andolfatto, D., 1996, "Business cycles and labor market search," *American Economic Review* 86, 112-132.
3. Merz, M., 1995, "Search in the labor market and the real business cycle," *Journal of Monetary Economics* 36, 269-300.
4. Shimer, R., 2005, "The cyclical behavior of equilibrium unemployment and vacancies," *American Economic Review* 95: 25-49.

5. Acemoglu, D. and R. Shimer, 1999, "Efficient unemployment insurance," *Journal of Political Economy* 107, 893-928.
6. Burdett, K., Shi, S., and R. Wright, 2001, "Pricing and matching with frictions," *Journal of Political Economy* 109, 1060-1085.
7. Shi, S., 2008, "Search Theory: New Perspectives," *The New Palgrave Dictionary of Economics*, second edition, eds. Steven N. Durlauf and Lawrence E. Blume. Palgrave Macmillan. (download: <http://www.economics.utoronto.ca/index.php/index/research/workingPaperDetails/273>)
8. Shi, S., 2009, "Directed search for equilibrium wage-tenure contracts," *Econometrica* 77, 561-584
9. Menzio, G. and S. Shi, 2008, "Efficient search on the job and the business cycle," working paper 327, University of Toronto.