

University of Toronto  
Winter 2011

Professor Alexopoulos  
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**Course Outline ECO2061H,S**  
**Economic Theory- Macroeconomics (MA)**  
**Winter 2011**

**Time and Location:** Lectures will be held every Tuesday 9-11 in SS2127 and every second week on Thursday 9-11 in room SS2108. The other time slots on Thursday in SS2108 are reserved for tutorials. The preliminary schedule is as follows:

Lecture dates:

Jan 11, 13, 18, 25, 27

Feb 3, 8, 10, 17

March 1, 3 (MIDTERM), 10 (Midterms handed back), 15, 17, 24, 29, 31

April 7

Tutorial times:

Jan 20, Feb 1 (PS #1), Feb 15 (PS#2), March 8, 22 (PS#3)

April 5 (PS#4)

**Office Hours:** Prof. Alexopoulos will hold office hours by appointment. Ms. Mengxiao Liu [mengxiao.liu@utoronto.ca](mailto:mengxiao.liu@utoronto.ca) is the T.A. for the course. She will announce the schedule of her office hours. Her email is: [mengxiao.liu@utoronto.ca](mailto:mengxiao.liu@utoronto.ca)

**Course Outline:** The course is intended to familiarize students with current topics in macroeconomics. Topics covered will include economic growth, consumption and investment, business cycle theory and unemployment. Calculus will be used throughout the course.

**Grading:** The term grade will be made up of a mid-term exam that will count for 70% of your term grade and three assignments (each worth 10%). The final exam will count for 100% of the Exam mark referred to below.

The final course grade will be calculated as follows

$$\text{Max (Term Grade} \times 40\% + \text{Exam} \times 60\%, \text{Term Grade} \times 60\% + \text{Exam} \times 40\%)$$

The mid-term will be scheduled for March 3.

The date of the Final will be announced when the exam timetable is available.

**Textbook:** Romer, David. *Advanced Macroeconomics*, 3rd. Edition. McGraw Hill, 2006.

## Topics:

### 1. Economic Growth.

#### 1.1. The Growth Facts.

#### 1.2. The Neoclassical Growth Model.

#### 1.3. The Planner's problem.

#### 1.4. The Competitive Equilibrium.

- Class notes.
- Romer, D. 2006. Chapter 1 & 2.

### 2. Consumption and Investment.

#### 2.1. The Life Cycle and Permanent Income hypothesis.

#### 2.2. Consumption under uncertainty: The Random Walk Hypothesis.

#### 2.3. Consumption and Risky Assets.

#### 2.4. Investment and the Cost of Capital.

#### 2.5. A Model of Investment with Adjustment Costs.

- Class notes.
- Kocherlakota, N. R. (1996). The Equity Premium: It's Still a Puzzle. *Journal of Economic Literature* 34 (March): 42-71.
- Romer, D. 2006. Chapter 7 and 8.

### 3. Business Cycle Analysis

#### 3.1. The Business Cycle Facts.

#### 3.2. Real Business Cycle Theory.

#### 3.3. Sticky Prices and Limited Participation

- Class notes.
- Romer, D. 2006. Chapter 4
- Cooley, Thomas and Edward Prescott. 1994. Economic Growth and Business Cycles in *Frontiers of Business Cycle Research*. Thomas Cooley Editor. Princeton University Press.
- Prescott, E. 1986. Theory Ahead of Business Cycle Measurement. *Federal Reserve Bank of Minneapolis Quarterly Review*, Fall, 9-22
- Christiano, Lawrence, Martin Eichenbaum and Charles Evans. (1997). "Sticky Price and Limited Participation Models of Money: A Comparison", *European Economic Review* 41, 1201-49.

### 4. Theories of Unemployment

#### 4.1. Indivisible Labour

#### 4.2. Efficiency Wages

#### 4.3. Implicit Contracts

#### 4.4. Insider Outsider Models

#### 4.5. Search and Matching

- Class notes
- Romer, D. 2006. Chapter 9
- Hansen, Gary D. (1985). "Indivisible Labor and the Business Cycle", *Journal of Monetary Economics* 16, 309-27.