

Macroeconomics III

QED, 2011/2012

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Office hours:

1 Topics

1.1 The New Classics as an answer to the old Keynesian tradition

1. ¿What is Macroeconomics?
2. The Lucas supply and the New-Classical Economics
3. Rational expectations and temporal inconsistency
4. Addressing temporal inconsistency through reputation

1.2 Monetary Business cycles

1. Introduction
2. Imperfect competition and strategic complementarity
3. Menu costs and nominal rigidities

1.3 Fiscal policy

1. The government budget constraint
2. The Ricardian equivalence result
3. Tax-smoothing

4. Political-economy theories of budget deficits
5. A model of debt crises

1.4 Growth theory

1. Growth accounting
2. The aggregate production function and the Solow model
3. Endogenous growth
4. R&D-based growth models and scale effects
5. Asset-pricing in the Ramsey model
6. Financial development and economic growth
7. Other topics: unified growth theory, health and growth,

2 Grading policy

You will have a 30-minute exam every other week that will consist of two questions. The first one will come from the problem set that I will give to you the week before the exam. The second question will be based on the material covered in class. The average score that you obtain in these short exams will count for 40% of your grade. The remaining 60% will be the result of a comprehensive final exam.

3 References

References marked with an asterisk (*) are the most helpful to learn the material that will be presented during the course.

- Main textbooks for the course

Blanchard, O., and S. Fisher, *Lectures on Macroeconomics*, MIT Press, 1989.

Romer, D., *Advanced Macroeconomics*, 2nd edition, McGraw-Hill, 2001.

- Other textbooks

Farmer, R., *The Macroeconomics of Self-fulfilling Prophecies*, 2nd edition, MIT Press, 1999.

Barro, R., *Macroeconomics*, 5th edition, John Wiley & Sons, 2000.

I recommend this text if you have not had any previous course in Macroeconomics, and need to look for the definition of macroeconomic variables that may have not been sufficiently explained in class. However, most introductory and intermediate textbooks in Macroeconomics will be useful for this purpose.

- Nice articles about the history of Macroeconomics

Blanchard, O., “What Do We Know about Macroeconomics that Fisher and Wicksell Did Not?” *Quarterly Journal of Economics*, Vol. 115(4): 1375-1409, 2000.

Chari, V.V., and P. Kehoe, “Modern Macroeconomics in Practice: How Theory is Shaping Policy,” *Journal of Economic Perspectives*, Fall 2006.

Woodford, M., “Revolution and Evolution in Twentieth-Century Macroeconomics,” June 1999, Forthcoming in P. Gifford, ed., *Frontiers of the Mind in the Twenty-First Century*, Harvard University Press.

- The New Classics as an answer to the old Keynesian tradition

* Blanchard-Fisher, textbook, sections 10.4, 10.5, and pages 356-361.

Kydland, F. and E. Prescott, “Rules Rather than Discretion: The Inconsistency of Optimal Plans,” *Journal of Political Economy* 85, 473-492, 1977.

Lucas, R., “Some International Evidence on Output Inflation Trade-offs,” *American Economic Review* 63, 326-334, 1973.

Lucas, R., “Econometric Policy Evaluation: A Critique,” in K. Brunner and Allan Meltzer (eds.), *Stabilization of the Domestic and International Economy*, North-Holland (Amsterdam), 7-29.

Lucas, R.E., “Asset prices in an exchange economy,” *Econometrica*, 46, 6, 1429-1444, 1978.

* Romer, D., textbook, chapter 5, and sections 10.4 and 10.5.

Sargent, T., and N. Wallace, “‘Rational Expectations’, the Optimal Monetary Instrument and the Optimal Money Supply Rule,” *Journal of Political Economy* 83, 241-254, 1975.

- Business cycles

* A. John’s notes on “Imperfect Competition and Macroeconomics.”

Cooper, R., and A. John, “Coordinating Coordination Failures in Keynesian Models.” *Quarterly Journal of Economics* 103, 441-463, 1988.

Cooper, R. and A. John, "Imperfect Competition and Macroeconomics: Theory and Quantitative Implications" *Cahiers d'Economie Politique*, 2000.

* Romer, D., textbook, chapter 4, sections 6.4, 6.8 and 6.11.

- Fiscal policy

Barro, R., "Are Government Bonds Net Wealth?" *Journal of Political Economy* 82, 1095-1117, 1974.

* Romer, D., textbook, chapter 11.

Tabellini, G., and A. Alesina, "Voting on the Budget Deficit," *American Economic Review*, Vol. 80, 1990, 37-49.

- Growth theory

* Barro and Sala-i-Martin, *Economic Growth*, chapter 4, McGraw Hill, 1995.

* Bencivenga and Smith, "Financial Intermediation and Endogenous Growth," *Review of Economic Studies*, Vol. 58, 1991, 195-209.

* Blanchard-Fisher, textbook, sections 4.1, 4.2, 4.5 and 10.1.

Jones, C., "R&D-Based Models of Economic Growth," *Journal of Political Economy*, 1995.

Levine, "Financial Development and Economic Growth: Views and Agenda," *Journal of Economic Literature*, 1997.

* Romer, D., textbook, chapter 3.

Romer, P., "Endogenous Technological Change," *Journal of Political Economy* 98, 1990, S71-S102.

* Solow, R., "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, 1956.