

**ECONOMICS 205B**  
**Macroeconomic Theory II**

This course is the second in a three quarter sequence of macroeconomic theory for students in the Ph.D. program. The objective of this course is to provide empirical assessments of various macroeconomic theories, and also to contrast the recent work in New Keynesian theory with the literature in the New Classical vein, by examining various sectors of the economy. The evaluation of your performance will be based on four problem sets (20%), one midterm (30%) and one final (50%). Three books are required:

David Romer, *Advanced Macroeconomics* (McGraw-Hill, New York, 1996) (hereafter **AM**).

N. Gregory Mankiw and David Romer, *New Keynesian Economics* (MIT Press, Cambridge, MA, 1991) (hereafter denoted as **MR1** and **MR2**, respectively).

All required readings not in the books are in the reader, also required. A background text that you may wish to refer to is:

Olivier J. Blanchard and Stanley Fischer, *Lectures in Macroeconomics* (MIT Press: Cambridge, MA 1989) (hereafter denoted as **LM**).

Textbooks that may be useful for more elementary review include:

Robert Hall and John Taylor, *Macroeconomics*, 5th ed. (McGraw-Hill: New York, 1997).

Required readings are denoted by an asterisk (\*), recommended readings by an (r).

**1. INTRODUCTION AND STATISTICAL BACKGROUND**

\* Alpha C. Chiang, *Fundamental Methods of Mathematical Economics* 3rd edition (McGraw-Hill: NY, 1984), pp. 549-561, 576-591.

\* Andrew C. Harvey, *Time Series Models* (MIT Press: Cambridge, MA, 1984), pp. 9-29.

**2. RATIONAL EXPECTATIONS WITHOUT AND WITH NOMINAL RIGIDITIES**

\* Robert Lucas and Thomas Sargent, 1979, "After Keynesian Macroeconomics," FRB Boston *After the Phillips Curve: Persistence of High Inflation and High Unemployment*, Conference Series No. 19.

\* **AM**, Sections 6.0-6.8.

\* John Taylor, 1979, "Staggered Wage Setting in a Macro Model." *AER Pap. and Proc.*; Chapter 8 in *MRI*.

Stanley Fischer, 1977, "Long-Term Contracts, Rational Expectations, and the Optimal Money Supply Rule," *JPE* (Feb.); Chapter 7 in *MRI*.

### **3. IMPLICATIONS OF COSTLY PRICE ADJUSTMENT**

\* *AM*, Sections 6.10-6.13.

\* N. Gregory Mankiw, 1985, "Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly," *QJE* 10(2) (May); Chapter 1 in *MRI*.

\* George Akerlof and Janet Yellen, 1985, "A Near-Rational Model of the Business Cycle, with Wage and Price Inertia," *QJE* (Sept.); Chapter 2 in *MRI*.

\* George Akerlof and Janet Yellen, 1985, "Can Small Deviations from Rationality Make Significant Differences to Economic Equilibria?" *AER* 75 (Sept.), pp 708-720.

### **4. IMPLICATIONS OF IMPERFECT COMPETITION**

\* Olivier Jean Blanchard and Nobuhiro Kiyotaki, 1987, "Monopolistic Competition and the Effects of Aggregate Demand," *AER* 77 (Sept.); Chapter 13 in *MRI*.

Oliver Hart, 1982, "A Model of Imperfect Competition with Keynesian Features," *QJE* 97 (February); Chapter 12 in *MRI*.

\* N. Gregory Mankiw, 1988, "Imperfect Competition and the Keynesian Cross," *Economic Letters* 26; Chapter 14 in *MRI*.

r Robert Hall, 1988, "Market Structure and Macroeconomic Fluctuations," *BPEA*(2); Chapter 15 in *MRI*.

### **5. CONSUMPTION**

\* *AM*, Chapter 7.

r Robert Hall, 1978, "Stochastic Implications of the Life-Cycle-Permanent Income Hypothesis: Theory and Evidence," *JPE* (December), pp. 971-987.

r John Campbell and N. Gregory Mankiw, "Consumption, Income and Interest Rates: Reinterpreting the Time Series Evidence," in O.J. Blanchard and S. Fischer (editors) *NBER Macroeconomics Annual, 1989* (MIT Press: Cambridge, MA, 1989), pp. 185-215.

\* Christopher Carroll, 1992, "Buffer Stock Saving and the Permanent Income Hypothesis." *BPEA* (2), pp. 61-156.

## **6. INVESTMENT AND CAPITAL THEORY**

### **6.1 Investment Theory**

\* *AM*, Section 8.0-8.5.

\* Lawrence Summers, 1981, "Taxation and Corporate Investment: A q-Theory Approach," *BPEA* (1), pp. 67-127.

### **6.2. Financing Hierarchies**

\* *AM*, Section 8.7-8.8.

\* Steven Fazzari, R. Glenn Hubbard, Bruce Petersen, 1988, "Financing Constraints and Corporate Investment," *BPEA* (1), pp. 141-206.

\* Carl Walsh, forthcoming, *Monetary Theory and Policy*, Chapter 7 "The Credit Channel of Monetary Policy."

### **6.3. The Stock Market**

\* Robert J. Shiller, 1981, "Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?" *AER* (June), pp. 421-436.

Robert J. Shiller, 1984, "Stock Prices and Social Dynamics," *BPEA* (2), pp. 457-510.

\* Lawrence Summers, 1985, "Does the Stock Market Rationally Reflect Fundamental Values?" *J.Finance* (July), pp. 591-603.

## **7. MONETARY POLICY AND BUSINESS CYCLES**

Robert J. Barro, 1977, "Unanticipated Money Growth and Unemployment in the United States," *AER* (March), pp. 563-584.

\* Frederic Mishkin, *A Rational Expectations Approach to Macroeconomics: Testing Policy*

*Ineffectiveness and Efficient-Markets Models*, (Chicago Univ. Press for NBER: Chicago, 1983), Chapter 6.

\* Carl Walsh, 1993, "What Caused the 1990-1991 Recession?" *Federal Reserve Bank of San Francisco Economic Review*, 1993(2), pp. 33-48.

## **8. UNEMPLOYMENT**

\* *AM*, Section 10.1.

### **8.1. Implicit Contracts**

*AM*, Section 10.5.

Costas Azariadis and Joseph Stiglitz, 1983, "Implicit Contracts and Fixed Price Equilibrium," *QJE* (supp.); Chapter 24 in *MR2*.

### **8.2. Efficiency Wage Models**

\* *AM*, Section 10.2-10.3.

r Janet Yellen, 1984, "Efficiency Wage Models of Unemployment," *AER*, (May) Chapter 21 in *MR2*.

*AM*, Section 10.4.

\* Carl Shapiro and Joseph Stiglitz. "Equilibrium Unemployment as a Worker Discipline Device," *AER*, June 1984. Chapter 22 in *MR2*.

r Alan Krueger and Lawrence Summers. "Efficiency Wages and Interindustry Wage Structure," *Econometrica* 56 (March 1988): 259-293. Chapter 23 in *MR2*.

### **8.3. Search Theory and Employment Externalities**

*AM*, Section 10.8.

\* Peter Diamond, 1982, "Aggregate-Demand Management in Search Equilibrium," *JPE* 90(5); Chapter 18 in *MR2*.

### **8.4. Hysteresis in Unemployment**

\* *AM*, Sections 10.6-10.7.

\* Olivier Jean Blanchard and Lawrence Summers, 1987, "Hysteresis in Unemployment," *EER* 31, pp. 288-295. Chapter 26 in *MR2*.

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