

## Course plan (final) for **Advanced Macroeconomics<sup>1</sup>**

At the first lecture (Sept. 3, 2014) an overview of the course and an account of the stuff belonging to the topics 1.1.1 and 1.1.2 below is given. Some background material for the course (about terminology and similar) can be found in Chapter 1 and Chapter 2.1-3 of Lecture Notes, available at the **course website** at <http://www.econ.ku.dk/okocg/Forside/Teaching.htm>. Please feel free to ask as many questions during lectures or by e-mail as you can think of.

### A. LOOKING AT THE LONG RUN

#### **1 Long-run aspects of government budget deficits in a discrete time framework**

- 1.1 Fiscal sustainability. Absence of Ricardian equivalence.
  - 1.1.1 The government and the government budget: Chapter 6.1-2.
  - 1.1.2 When is permanent debt roll-over feasible and when is it not? Chapter 6.3.
  - 1.1.3 Debt arithmetic with the SGP of the EMU as an example: Chapter 6.4.
  - 1.1.4 Solvency and the government intertemporal budget constraint: Chapter 6.5.
  - 1.1.5 Why Ricardian equivalence fails: Chapter 6.6.
- 1.2 Barro's dynasty model; the modified golden rule: Chapter 7.1-3, all cursory.

#### **2 Overlapping generations in continuous time**

- 2.1 The Blanchard model of "perpetual youth": Chapter 12.1-2 and 12.6, incl. App. A. Short Note 1: On discrete vs. continuous time analysis.
- 2.2 Adding retirement; theory of the rate of return in the long run; a small open economy: Chapter 12.3-5 (§12.5 only cursory).
- 2.3 Long-run effects of government debt; a small open economy; alternative public sector accounting; optimal debt policy: Chapter 13 (13.3-4 only cursory); Elmendorf & Mankiw (1999) (§1-4 only cursory).

#### **3 Tobin's q. Fixed-capital investment. Residential investment. Bubbles.**

- 3.1 Convex adjustment costs and the q-theory of investment; applications: Chapter 14.
- 3.2 The housing market in macroeconomics: Chapter 15.2. Exercise Problem.
- 3.3 Uncertainty, expectations and asset price bubbles: Special Lecture Note.

### B. LOOKING AT THE SHORT RUN

#### **4 Money and the money market. Rates of return.**

- 4.1 Money in macroeconomics (a refresher): Chapter 16 (self-tuition).
- 4.2 Theory of the level of interest rates: Short Note 2 (self-tuition).

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<sup>1</sup> "Chapter ..." refers to Groth: *Lecture Notes in Macroeconomics*, available on the course website (<http://web.econ.ku.dk/okocg/>). Other references refer to the syllabus, see p. 3 below.

## **5 Nominal rigidities and nonneutrality of money**

- 5.1 The theory of effective demand. Refutation of Say's law: Chapter 19.1-2.
- 5.2 Monopolistic competition and price setting; menu costs; the short side rule and rule of the minimum; involuntary unemployment; the interplay of nominal and real price rigidities: Chapter 19.3. Cursory: Yellen (1984).
- 5.3 The static IS-LM model (a refresher): Chapter 19.4-7 (self-tuition, only cursory).

## **6 Extensions of the IS-LM model**

- 6.1 IS-LM dynamics under rational expectations; the expectations theory of the term structure of interest rates: Chapter 20.
- 6.2 SOE with fixed exchange rate: Chapter 21.1-2 (§21.1 only a refresher and cursory).
- 6.3 Financial intermediation and the macroeconomy.
  - 6.3.1 Monetary transmission mechanisms. An overview: Mishkin (1995).
  - 6.3.2 The bank lending channel: Short Note 3. Cursory: Bernanke and Blinder (1988).
- 6.4 From short to medium run: dynamics.
  - 6.4.1 Leijonhufvud's corridor hypothesis and the emergence of a liquidity trap: Groth (1993).
  - 6.4.2 Phillips curve, Taylor rule, and liquidity trap. Short Note 4.

## **C. FITTING THE PARTS TOGETHER: THE MEDIUM RUN**

### **7 Business cycle fluctuations**

Concepts and stylized facts. The Beveridge curve.: Chapter 28.

### **8 Explaining business cycle fluctuations**

- 8.1 Real Business Cycle theory:
  - 8.1.1 The firm and the household: Chapter 29.1.
  - 8.1.2 The RBC theory as a whole: Chapter 29.4. Very cursory: King and Rebelo (1999), pp. 927-74.
  - 8.1.3 Discussion: Was the Great Depression really the Great Vacation? Chapter 29.5. Cursory: Solow (2001).
- 8.2 Keynesian perspectives: Why does the economy fall to peaces after a financial crisis?
  - 8.2.1 Building blocks in Keynesian models; wage curve and Phillips curve; vicious and virtuous circles; the balance sheet channel: Chapter 30.1-3.
  - 8.2.2 Precautionary saving: Chapter 30.4.
  - 8.2.3 Aspects of the Great Recession 2008-? Slides.

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**Check the course website.** You should check the course website before each lecture and each exercise class for new information and material.

# Syllabus (final)

## Advanced Macroeconomics Fall 2014

There are four categories of texts:

1. CHAPTERS from C. Groth, *Lecture Notes in Macroeconomics*, a text in the pipeline. The selected chapters (cf. the course plan) will become available on the course website during the course.

2. JOURNAL ARTICLES and excerpts from books, available online from the course website and the department library:

Elmendorf, D., and N. G. Mankiw: Government Debt. Chapter 25 in *Handbook of Macroeconomics*, vol. 1C, Amsterdam 1999. Section 1-4 only cursory.

Groth, C.: Some unfamiliar dynamics of a familiar macro model: A note, *Journal of Economics*, vol. 58, no. 3, 1993, 293-305.

Mishkin, F. S.: Symposium on the Monetary Transmission Mechanism, *Journal of Economic Perspectives*, vol. 9, no. 4, 1995, 3-10.

3. NOTES, available at the course website:

a) Short Notes No. 1, 2, 3 and 4.

b) Special Lecture Note entitled “Uncertainty, expectations and asset price bubbles”.

4. CURSORY READING, available from the course website and the department library:

Bernanke and Blinder: Credit, money, and aggregate demand, *American Economic Review*, May 1988, 435-439.

King, R. G., & S. T. Rebelo: Resuscitating Real Business Cycles. Chapter 14 in *Handbook of Macroeconomics*, vol. 1C, Amsterdam 1999, pp. 927-74.

Solow, R. M.: From Neoclassical Growth Theory to New Classical Macroeconomics. Chapter 2 in J. Drèze (ed.): *Advances in Macroeconomic Theory*, New York 2001.

Yellen, J. L.: Efficiency Models of Unemployment, *American Ec. Rev.*, vol. 74 (2), 1984, 200-05.

### ***Other material***

*Lists of errata* The lecture notes and other course material may contain misprints or logical errors (hopefully not too many). Hence it is recommended that you consult the lists with errata at the course website, updated during the course.

*Remarks on the examination requirements* The items in the above list are referred to in the course plan. Some items are classified as only cursory reading. This implies that you should read them in order to obtain general knowledge of the main point whereas you do not have to master the technicalities in question.

*Mandatory homework: midterm paper* In October you are given a mandatory examination problem. Your written answer is due two weeks later. You are encouraged to do a joint paper with fellow students (max. four students per group). During working on the problem you are most

welcome to consult me. One of the two weeks the lecture is cancelled. Your paper will be evaluated (with comments) by me or the class instructor. In order to go in for the final written exam at the end of the semester, it is required that the midterm paper is accepted (grade not less than 2).

*Exercise class* There is a class for exercises. The exercise problems and related material will be available at the course website.

#### *Exam*

The exam is a three hours, closed book written exam.

#### *Supplementary articles*

Brunnermeier, M.K., T.M. Eisenbach, and Y. Sannikov: Macroeconomics with Financial Frictions: A survey. WP 2012, see Brunnermeier's website.

Christiano, L.: Remarks on Unconventional Monetary Policy, *International Journal of Central Banking*, March 2011.

Krugman, P. : Debt, deleveraging, and the liquidity trap, Vox.EU.com, November 18, 2010.

Woodford, M.: Financial Intermediation and Macroeconomic Analysis, *Journal of Economic Perspectives*, vol. 24, no. 4, 2010, 21-44.

These articles are supplementary to points 6 and 8 in the course plan.

#### *Supplementary textbooks* (where alternative treatments of some of the topics can be found)

##### *Easy going:*

Gottfries, N.: *Macroeconomics*, Palgrave Macmillan, London 2013.

##### *More demanding texts:*

Benassy, J.-P.: *Macroeconomic Theory*, Oxford University Press 2011.

Blanchard, O. J., and S. Fischer: *Lectures on Macroeconomics*, Cambridge (Mass.) 1989.

Obstfeld, M., and K. Rogoff: *Foundations of Modern Macroeconomics*, Cambridge (Mass.)1996, Chapters 2-3, 7, and 9.

Romer, D.: *Advanced Macroeconomics*, 4th ed., N.Y. 2011, Chapters 4, 6-11.

Walsh, C. E.: *Monetary Theory and Policy*, Cambridge (Mass.) 1998, Chapters 1-5, 7, 9-10.

Wickens, M.: *Macroeconomic Theory. A Dynamic General Equilibrium Approach*, Princeton University Press 2008.