

Course plan (final) for **Advanced Macroeconomics 2¹**

A. INTRODUCTION (Sept. 5, 2007)

Read Chapter 1 and Chapter 3, § 2.1, as an introduction to the terminology of the course. Available on the course website from Sept. 2, at 12:00.

B. LOOKING AT THE LONG RUN

1 Intergenerational issues in the ageing society

1.1 Extending the Diamond overlapping-generations model with endogenous labor supply: Chapter 3, § 2.1.

1.2 Endogenous retirement. Intertemporal substitution in labor supply: Chapter 3.2.2-3.

1.3 Bequests. The Barro model: Chapter 4.1-2 (4.2 cursory).

2 Overlapping generations in continuous time

2.1 The Blanchard model of “perpetual youth”: Chapter 8.1-2.

2.2 Adding retirement (age-dependent labor supply). Theory of the real interest rate in the long run: Chapter 8.3-4.

2.3 The small open economy: Chapter 8.5-6 (self-tuition).

2.4 Budget policy, fiscal sustainability, and debt arithmetic. GE effects of government debt. (why Ricardian Equivalence fails): E & M (Course Material) and Chapter 9 (9.5 only cursory).

3 Investment, Tobin’s q and the open economy

3.1 Convex adjustment costs and the q -theory of investment. Open economy applications: Chapter 10.

3.2 The housing market in macroeconomics (exercise problem).

4 Money, inflation and capital accumulation

4.1 Money in macroeconomics: Chapter 12 (self-tuition).

4.2 Long-run aspects: The Sidrauski model (in continuous time). Is money superneutral? Friedman’s zero-interest-rate rule: Chapter 13 (13.4 only cursory).

4.3 A closer look at money. Seigniorage and hyperinflation. The monetary transmission mechanism in the short and the long run. Costs and benefits of inflation: Chapter 14, all cursory and self-tuition.

¹ “Chapter ...” refers to the Lecture Notes, available on the course website (<http://www.econ.ku.dk/okocg/>) one or two days in advance. Some of the listed topics are left for self-tuition and some of the topics will be topics for exercises and only dealt with indirectly in lectures.

C. LOOKING AT THE SHORT RUN

5 Nominal rigidities and rational expectations

5.1 Some useful short-run ad-hoc models with rational expectations.

5.1.1 Dynamic IS-LM model. The expectations theory of the term structure of interest rates: Chapter 15 (15.2 only cursory).

5.1.2 Fixed vs. floating exchange rates; overshooting: Chapter 16 (16.1 only cursory).

5.2 Monetary transmission mechanisms – the different channels; facts on the relation of money and output: Mishkin; Blanchard p. 780-93 (Course Material, p. 782-86 only cursory) (all self-tuition).

6 Microfoundations of nominal rigidities and nonneutrality of money. Uncertainty and rational expectations

6.1 A model with monopolistic competition; CES gymnastics; menu costs and real effects of aggregate demand; multiple equilibria; the minimum transaction rule: Chapter 17 (pp. 593-607 only cursory).

6.2 The interplay of nominal and real rigidities; multiple equilibria: Blanchard, pp. 806-19 and Solow 1998 (Course Material); Yellen (all cursory and self-tuition).

D. FITTING THE PARTS TOGETHER: THE MEDIUM RUN

7 Business cycle fluctuations

Concepts and stylized facts: Abel & Bernanke (Course Material). Chapter 23.

8 Explaining business cycle fluctuations

8.1 Real Business Cycle theory:

8.1.1 The firm and the household: Chapter 24.0-1.

8.1.2 The RBC theory as a whole: Chapter 24.2-4 (24.2-3.1 only cursory).

Cursory: King & Rebelo, pp. 927-74 (Course Material). Tables from *Handbook of Labor Economics* (Course Material).

8.1.3 Discussion. Chapter 24.5-6. Cursory: Solow (2001) and Blanchard pp. 796-801 (Course Material).

8.2 Keynesian perspectives:

8.2.1 The bank lending channel (the IS-LM-CC model): Bernanke and Blinder.²

8.2.2 Vicious and virtuous circles; precautionary saving: Chapter 25.

The references refer to the syllabus overleaf.

²Outside syllabus is here is some useful material on the current global financial crisis:
<http://www.voxeu.org/index.php?q=node/1352>

Syllabus (final)
for
Advanced Macroeconomics 2 autumn 2008

There are four categories of texts:

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

2. COURSE MATERIAL, a collection of excerpts from books. To be bought at the Study Office (“Studiekontoret”). Contains the following:

Elmendorf, D., & N. G. Mankiw: Government Debt. Chapter 25 in *Handbook of Macroeconomics*, vol. 1C, Amsterdam 1999. (E & M)

Blanchard, O.: Why Does Money Affect Output? Chapter 15 in *Handbook of Monetary Economics*, vol. II, Amsterdam 1990 pp. 780-819 (pp. 782-86 and 796-819 only cursory).

Solow, R. M.: Some Macroeconomic Implications of Monopolistic Competition. Chapter 1 in R. M. Solow: *Monopolistic Competition and Macroeconomic Theory*, Cambridge 1998. Curs.

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

Abel, A. B., & B. S. Bernanke: Business Cycles. First part of Chapter 8 in A. B. Abel & B. S. Bernanke: *Macroeconomics*, 4. ed., Boston 2001.

King, R. G., & S. T. Rebelo: Resuscitating Real Business Cycles. First part of Chapter 14 in *Handbook of Macroeconomics*, vol. 1C, Amsterdam 1999, all cursory.

Tables on labor supply elasticities from *Handbook of Labor Economics*, vol. 1, Amsterdam 1986. Cursory.

3. JOURNAL ARTICLES, available from the course website or the department library:

Bernanke, B. S., and A. S. Blinder: Credit, Money, and Aggregate Demand, *American Economic Review*, vol. 78, No. 2, 435-39.

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

Yellen, J. L.: Efficiency Models of Unemployment, *American Ec. Rev.*, vol. 74, no. 2, 1984, 200-05. Cursory.

4. SHORT NOTES, no. 1-5 (available on the course website).

Correction lists

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 correction lists, published at the course website 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. Not everything in the texts is equally important. A text may be part of the curriculum because it deals with key concepts and points of view that you are supposed to know. And perhaps the text also contains a mathematical tool of analysis you should master. At the same time there may be other technicalities in the text that you don't have to master. The mathematical tools that you are supposed to master (because they are central to macroeconomic analysis and problem solving) will be underlined in the lectures and the exercise class.

Midterm paper

In October there is a mandatory examination problem, the midterm paper. 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).

Exercises

There is a separate class for exercises. The exercise problems and in some cases also suggested solutions are available on the course website.

Exam

The exam is a four hours, closed book written exam. In the period between the last lecture in December and the exam in January the lecturer is not available for questions. Thus you should *be active during the teaching period*. There will be an exam preparation meeting (two hours) in January a couple of days before the exam.

Supplementary textbooks

Alternative treatments of some of the topics in this course can be found in:

- Blanchard, O. J., and S. Fischer: *Lectures on Macroeconomics*, Cambridge (Mass.) 1989.
Obstfeld, M., & K. Rogoff: *Foundations of Modern Macroeconomics*, Cambridge (Mass.) 1996, Chapters 2-3, 7, and 9.
Romer, D.: *Advanced Macroeconomics*, 2. ed., N.Y. 2001, Chapters 4, 6-11.
Walsh, C. E.: *Monetary Theory and Policy*, Cambridge (Mass.) 1998, Chapters 1-5, 7, 9-10.

Recommended supplementary reading (the numbers refer to the course plan)

- 6.1 Blanchard, O., & N. Kiyotaki: Monopolistic Competition and the Effects of Aggregate Demand, *American Ec. Rev.*, vol. 77, no. 4, 1987.
Blanchard, O., and F. Giavazzi: Macroeconomic effects of regulation and deregulation in goods and labor markets, *Quarterly J. of Economics*, vol. 118, no. 3, 2003, 879-907.
- 8.2 Basu, S., and A. M. Taylor: Business Cycles in International Historical Perspective, *J. of Economic Perspectives*, vol. 13, no. 2, 1999, 45-68.
Blanchard, O.: European Unemployment, *Economic Policy*, Jan. 2006, 7-47.
Blanchard, O., & L. Katz: Wage Dynamics: Reconciling Theory and Evidence, *American Ec. Rev.*, vol. 89, no. 2, 1999, 69-74, all cursory.
Krugman, P.: It's Baaack! Japan's Slump and the Return of the Liquidity Trap, *Brookings Papers on Economic Activity*, no. 2, 1998, 137-87.
Svensson, L.: Escaping from a Liquidity Trap and Deflation: The Foolproof Way and Others, *J. of Economic Perspectives*, vol. 17, no. 4, 2003, 145-166.
