

## Course plan (preliminary) for **Advanced Macroeconomics 2<sup>1</sup>**

### 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: Chapter 3, § 2.2.

1.3 Bequests. The Barro model: Chapter 4, § 1.

#### **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 (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.

#### **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). Are money superneutral? Friedman’s zero-interest-rate rule: Chapter 13 (§ 4 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 (self-tuition).

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<sup>1</sup> “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.

5.1.2 Fixed vs. floating exchange rates; overshooting: Chapter 16.

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; menu costs and real effects of aggregate demand; multiple equilibria; the minimum transaction rule: Chapter 17, § 1-2, 4-6 and 8-9; here § 4 is only cursory.

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

## D. FITTING THE PARTS TOGETHER: THE MEDIUM RUN

### 7 Business cycle fluctuations

Concepts and stylized facts: Abel & Bernanke (Course Material). Chapter 22.

### 8 Explaining business cycle fluctuations

8.1 Real Business Cycle theory:

8.1.1 The firm and the household: Chapter 23 § 0-1.

8.1.2 The RBC theory as a whole: Chapter 23 § 2-4.

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

8.1.3 Discussion. Chapter 23, § 5-6. Cursory: Solow (2001) and Blanchard pp. 796-801 (Course Material).

8.2 Keynesian perspectives, vicious and virtuous circles; precautionary saving: Chapter 24.

8.3 Credit and business cycles: text to be announced.<sup>2</sup>

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The references refer to the syllabus overleaf.

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

**Syllabus (preliminary)**  
for  
**Advanced Macroeconomics 2 autumn 2008**

There are three 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 796-806 only cursory).

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

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:

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.

*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 you will be 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). Readable handwriting is OK. During working on the problem you are most welcome to consult me. One of the two weeks either the lecture or the class exercises (or both) will be cancelled. I evaluate your paper. 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).

### *Exercises*

You are urgently advised to be active in the separate class for exercises and to try to solve the exercise problems at home *before* they are discussed in class. Also here cooperation in small study groups is recommended. Don't forget the old proverb on learning:

If you don't use it, you will lose it

### *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. So you should *be active during the teaching period*. If desired, we arrange an exam preparation meeting (two hours) in January.

The Study Board has decided that all written exams from this semester will be *electronic* and conducted at the Peter Bangs Vej Centre; it is important that all students get as much experience with the technical setup as possible. More information at:

<http://samf.ku.dk/studenterinformation/nyheder/pbv/>

### *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, 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.

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