

**University of Wyoming**  
**College of Business**  
**Department of Economics and Finance**

**ECON 5110**  
**Advanced Topics in (Macro)Economic Theory**  
**TTh 8:10-9:25**  
**Bugas Seminar Room**  
**Spring 2009**

**Instructor:** Dr. David Aadland

**Office:** Ross Hall 133

**Telephone:** Office #: 766-4931, Department #: 766-2178

**Office Hours:** TR 11:30 – 1:00

**Email:** [aadland@uwyo.edu](mailto:aadland@uwyo.edu)

**Class Homepage:** <http://www.uwyo.edu/aadland/classes/econ5110/>

**Course Description:**

This course presents an overview of modern business-cycle theory. We will examine both New Classical and New Keynesian models, as well as topics such as learning, self-fulfilling prophecies, multiple equilibria, and solution techniques for rational expectations models.

**Course Prerequisites:** ECON 5010, 5020.

**Primary Texts:**

*Advanced Macroeconomics – 3<sup>rd</sup> Edition* by David Romer

*Macroeconomics of Self-Fulfilling Prophecies – 2<sup>nd</sup> Edition* by Roger E. Farmer

*Lectures on Macroeconomics* by Oliver J. Blanchard and Stanley Fischer

**Other Useful Texts:**

*Frontiers of Business Cycle Research* edited by Thomas F. Cooley

*Handbook of Macroeconomics* (3 volumes) edited by John B. Taylor and Michael Woodford

*Learning and Expectations in Macroeconomics* by George W. Evans and Seppo Honkapohja

*Monetary Theory and Policy – 2<sup>nd</sup> Edition* by Carl E. Walsh

**Course Objectives:**

This is the second of a two-semester sequence in macroeconomics. We will build on your training in Macro I, covering many of the fundamental concepts and seminal articles in macroeconomics, as well as, several topics which are at the frontier of macroeconomic research. Upon completion of the macro sequence, I expect that you should (i) have a general understanding of the current debates in modern macroeconomics; (ii) possess the tools necessary to read scholarly journal articles; and, if you desire, (iii) be able to carry out your own research in macroeconomics.

**Course Requirements:**

- Examinations. There will be two exams: a midterm and a final.
- Problem Sets. There will be a total of five problem sets, which will be made available on our class webpage. The due date will be clearly printed at the top of each assignment. No late assignments will be accepted. Collaborative work is encouraged; however, each student is required to turn in an independently composed set of answers.

**Grading:** Examinations and problem sets will be weighted as follows:

Problem Sets	(100 pts)	33.3%
Exam #1	(100 pts)	33.3%
Exam #2	(100 pts)	33.3%
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	(300 pts)	100%

**Attendance Policy:** Attendance is not mandatory but expected.

**Academic Dishonesty :**

UNIREG 802, Revision 2, defines academic dishonesty as “an act attempted or performed which misrepresents one’s involvement in an academic task in any way, or permits another student to misrepresent the latter’s involvement by assisting the misrepresentation.” Academic dishonesty will not be tolerated in this class; any instances will be referred to the university’s established procedure for judging such cases, with severe penalties as found appropriate.

**Disclaimer:**

Subsequent changes may be made to any aspect or detail of this Syllabus if and when necessary. Any changes will be announced in class as soon as practical.

# COURSE OUTLINE

## 1. Real Business Cycle Theory

### A. Background – Solow and Ramsey Growth Models

- Romer, chapter 1.
- Romer, chapter 2, pages 48-76.

### B. Basic Model, Solution, Calibration and Simulation

- Farmer, chapter 3.
- Farmer, chapter 5, pages 99-110.
- Romer, chapter 4, pages 174-210.
  
- Prescott, Edward. (1986) “Theory Ahead of Business Cycle Measurement.” Federal Reserve Bank of Minneapolis *Quarterly Review*, Fall, 9-22.

### C. Addressing Shortcomings

#### Overview

- Romer, chapter 4, pages 210-16.
  
- King, Robert G. and Sergio Rebelo. (1999) “Resuscitating Real Business Cycles,” in John B. Taylor and Michael Woodford, eds., *Handbook of Macroeconomics*, vol 1A, 927-1007.

#### Labor Market

- Hansen, Gary D. (1985) “Indivisible Labor and the Business Cycle.” *Journal of Monetary Economics*, 16(November): 309-27.
  
- Christiano, Lawrence and Martin Eichenbaum. (1992) “Current Real-Business Cycle Theories and Aggregate Labor Market Fluctuations.” *American Economic Review*, 82(3): 430-50.
  
- Aadland, David. (2001) “High-Frequency Real Business Cycles.” *Journal of Monetary Economics*, 48(2): 271-92.

#### Propagation

- Cogley, Timothy and James Nason. (1995) “Output Dynamics in Real-Business-Cycle Models.” *American Economic Review*, 85(June): 492-511.

#### International

- Backus, David, Patrick Kehoe and Fynn Kydland. (1992) “International Real Business Cycles.” *Journal of Political Economy*, 100(4): 745-75.

## 2. Endogenous Fluctuations

- Farmer, chapters 7 and 10.
- Benhabib, Jess and Roger E.A. Farmer. (1999) “Indeterminacy and Sunspots in Macroeconomics,” in John B. Taylor and Michael Woodford, eds., *Handbook of Macroeconomics*, vol 1A, 387-448.

## 3. Learning in Macroeconomics

- Evans and Honkapohja, chapters 1-2, and 4.
- Evans, George W. and Seppo Honkapohja. (1999) “Learning in Macroeconomics,” in John B. Taylor and Michael Woodford, eds., *Handbook of Macroeconomics*, vol 1A, 449-542.

## 4. New Keynesian Economics

### Overview

- Romer, chapters 5 and 6.
- Espinosa-Vega, Marco A. and Jang-Ting Guo. (2001) “On Business Cycles and Countercyclical Policies.” Federal Reserve Bank of St. Louis *Economic Review*, 86(4): 1-11.

### Rigidities

- Gray, Jo Anna. (1976) “Wage Indexation: A Macroeconomic Approach.” *Journal of Monetary Economics*, 2: 221-35.
- Taylor, John B. (1979) “Staggered Wage Setting in a Macro Model.” *American Economic Review*, 69(May): 108-13.
- Mankiw, Gregory N. (1985) “Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly.” *Quarterly Journal of Economics*, 100: 529-39.
- Mankiw, Gregory N. and Ricardo Reis. (2002) “Sticky Information Versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve.” *Quarterly Journal of Economics*, 117: 1295-1328.

### Coordination Failures

- Diamond, Peter. (1982) “Aggregate Demand Management in Search Equilibrium.” *Journal of Political Economy*, 90: 881-94.
- Cooper, Russel and Andrew John. (1988) “Coordinating Coordination Failures in Keynesian Models.” *Quarterly Journal of Economics*, 103: 441-63.

### Efficiency Wages

- Shapiro, Carl and Joseph Stiglitz. (1984) “Equilibrium Employment as a Worker Discipline Device.” *American Economic Review*, 74: 433-44.

### Monetary Policy

- Walsh, chapter 5.
- Kydland, Fynn and Edward Prescott. (1977). “Rules Rather than Discretion: The Inconsistency of Optimal Plans.” *Journal of Political Economy*, 87: 473-492.
- Clarida, Richard, Jordi Gali and Mark Gertler. (1999) “The Science of Monetary Policy,” *Journal of Economic Literature*, 37(4): 1661-707.
- Bullard and Mitra. (2002). “Learning About Monetary Policy Rules.” *Journal of Monetary Economics*, 49(6): 1105-29.
- Clarida, Richard, Jordi Gali and Mark Gertler. (2000). “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory.” *Quarterly Journal of Economics*, 115, 147-180.
- Gali, Jordi and Mark Gertler. (2007). “Macroeconomic Modeling for Monetary Policy Evaluation.” *Journal of Economic Perspectives*, 21(4), 25-45.

## **5. Macroeconomic Crises**

- Bordo, Michael D., Christopher J. Erceg and Charles L. Evans. (2000). “Money, Sticky Wages and the Great Depression.” *American Economic Review*, December, pp. 1447-63.
- Cole, Harold L. and Lee E. Ohanian. (2004). “New Deal Policies and the Persistence of the Great Depression: A General Equilibrium Analysis.” *Journal of Political Economy*, 112(4), 779-816.
- Harrison, Sharon and Mark Weder. (2006). “Did Sunspot Forces Cause the Great Depression?” *Journal of Monetary Economics*, 53(7), 1327-1340.
- Reinhart, Carmen and Kenneth Rogoff. (2008). “Is the 2007 U.S. Sub-Prime Financial Crisis so Different? An International Historical Comparison.” NBER Working Paper #13761.
- Chari, V.V., Lawrence Christiano and Patrick J. Kehoe. (2008) “Facts and Myths about the Financial Crisis of 2008.” Federal Reserve Bank of Minneapolis Working Paper #666.

## 6. Synthesis

- Goodfriend, Marvin. (2002) “Monetary Policy in the New Neoclassical Synthesis: A Primer.” <http://www.blackwell-publishing.com/specialarticles/INFI093.pdf>.
- Chari, V.V. and Patrick J. Kehoe. (2006) “Modern Macroeconomics in Practice: How Theory is Shaping Policy.” *Journal of Economic Perspectives*, 20(4), 3-28.