

ECON 7040-002 MACROECONOMIC THEORY 2
SPRING 2008

Tuesday and Thursday, 12:30 PM - 1:45 PM, LIBR M300D

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Course Description

Modern macroeconomics, increasingly micro-founded, seeks to explain the dynamic interactions between, first and foremost, aggregate variables such as output, inflation and investment on the basis of optimizing individual behavior. Throughout this semester, we will study the mainstream macroeconomic approach and acquire the tools needed to perform independent research in the field.

The second course of the macroeconomics sequence is designed to cover a variety of contemporary topics and issues in modern macroeconomic theory. The tentative course plan does not emphasize a specific topic but seeks to provide a general perspective and establish a foundation in the main research areas.

Texts

The required textbook is:

- Ljungqvist, Lars and Thomas J. Sargent, *Recursive Macroeconomic Theory*, 2000, The MIT Press

The following are the background texts which will be referred to from time to time throughout the semester:

- Stokey, Nancy L. and Robert E. Lucas, *Recursive Methods in Economic Dynamics*, 1989, Harvard University Press
- Blanchard, Olivier J. and Stanley Fischer, *Lectures on Macroeconomics*, 1990, The MIT Press
- Cooley, Thomas F. (Editor), *Frontiers of Business Cycle Research*, 1995, Princeton University Press

Grading Policy and Exam Dates

There will be one midterm, three assignments and a final exam. The midterm will count 30%, each assignment will count 10% and the final exam will be worth 40% of the overall grade. The midterm will be held on March 18th. The final examination date and the assignment dates are to be announced.

Course Outline

Part 1: Deterministic and Stochastic Growth

- Stokey and Lucas, Ch. 1, 2
- Also Useful: Cooley, Ch. 1

Part 2: Competitive Equilibrium with Complete Markets

- Ljungqvist and Sargent, Ch. 7, 8
- Also Useful: Stokey and Lucas, Ch. 15, 16

Part 3: Incomplete Markets with Heterogeneous Agents

- Ljungqvist and Sargent, Ch. 14
- Also Useful: Cooley, Ch. 4

Part 4: Money

- Ljungqvist and Sargent, Ch. 17
- Blanchard and Fischer, Ch. 4
- Also Useful: Cooley, Ch. 7

Part 5: Issues in Fiscal and Monetary Policies

- Ljungqvist and Sargent Ch. 12
- Lucas, R., Stokey, N., "Optimal Fiscal and Monetary Policy in an Economy without Capital", Journal of Monetary Economics, Vol. 12, July 1983
- Chari, V., Christiano, J., Kehoe, P., "Optimal Fiscal and Monetary Policy: Some Recent Results", Journal of Money, Credit and Banking, Vol. 23, August 1991
- Also Useful: Blanchard and Fischer, Ch. 11

Part 6: Asset Pricing (Time Permitting)

- Ljungqvist and Sargent, Ch. 10