Yeshiva University

M.Q.E

Macroeconomics II
ECON 5104
Spring 2016
Dr. Omer T. Acikgoz

Syllabus

Course objectives

This course is the continuation of Macroeconomics I. That course introduced you to the basic tools of neoclassical macroeconomic analysis: Growth Theory and the Stochastic Growth Model otherwise known as Real Business Cycle (RBC) Model. This semester we will focus on applications of these tools, with an emphasis on departures from the complete markets, frictionless approach. We will focus on four types of frictions widely seen to play an important role in macroeconomic analysis: Sticky Prices, Search, Financial Frictions (from moral hazard), and adjustment costs in consumption and investment.

The prototype sticky price model now plays a central role in the analysis of macroeconomic policy, both monetary and fiscal. We will spend some time developing this framework and its applications. One result will be the so-called New Keynesian Phillips Curve.

The search model, pioneered by Diamond, Mortensen, and Pissarides (all recent Nobel prize winners) has found its greatest use in analysis of labor markets. We will develop the general framework and examine applications to models of unemployment and labor market dynamics.

Finally, financial frictions are widely believed to have played a pivotal role in the recent Great Recession and in the financial crisis that preceded it. Models of such frictions had been developed in the 1980s and 1990s (e.g. Bernanke and Gertler, 1989), and have now been updated and applied to the present day.

As we examine frictions, we will spend some time reexamining components of the neoclassical model, notably asset pricing as in Lucas (1978), consumption behavior as pioneered by Hall (1978) and further explicated by, among others, Deaton (1993), and investment behavior.

Course materials

The primary textbook for the class will be Romer's *Advanced Macroeconomics*, 4th edition (McGraw-Hill). Some additional readings assigned or recommended. We will also be using some material from this book, which is recommended but not required:

Jordi Galí, *Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework*, Princeton University Press. ISBN: 9780691133164

There will be approximately four assignments, a midterm, and a final exam.

Other References:

Bernanke, Ben and Mark Gertler , "Agency Costs, Net Worth, and Business Fluctuations," *The American Economic Review* , Vol. 79, No. 1 (March 1989), pp. 14-31.

Deaton, A., *Understanding Consumption* (Oxford University Press, 1993).

Hall, R., "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy,* Vol. 86, No. 6 (Dec. 1978), pp. 971-987.

Lucas, R., "Asset Prices in an Exchange Economy," *Journal of Economic Theory* (1978).

Mortenson, D., and C. Pissarides, "Job Creation and Job Destruction in the Theory of Unemployment," *Review of Economic Studies*, Vol. 61, No. 3 (July 1994), pp. 397-415.

Obstfeld, M., and K. Rogoff, "Speculative Hyperinflations in Maximizing Models: Can We Rule Them Out?" *Journal of Political Economy*, Vol. 91, No. 4 (Aug. 1983), pp. 675-687.

Grading

- Four written assignments. They will collectively count for **20**% of the grade.
- A midterm exam (see course outline). This will count for **35**% of the grade.
- A final exam at the end of the semester. This will count for **45**% of the grade.

While the assignments and exams will emphasize quantitative methods such as optimization or solving for equilibrium, they will also require you to demonstrate a deeper understanding of economic intuition. This concept of getting beyond the mechanics of problem-solving to "thinking like an economist" will be an important component of the class.

Please note that while you may work together on the assignments you must write up your own answers in your own words. The intent of the assignments is to gauge your grasp of the material and to prepare you for the exams. Simply relying on others will lead to failure.

Angel

The course website can be accessed via Angel at https://yu.elearning.yu.edu/default.asp. Course materials, including homework assignments and some readings, will be available there.

Contact information and Office Hours

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Office Hours: W 12:00-1:30pm
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Tentative Outline

I. Nominal Frictions (Romer, Ch. 6-7, approximately seven lectures)

A. Simple Monetary Models without Frictions

B. Microeconomic Foundations of Nominal Frictions

1. Information frictions

2. Costs of adjusting prices

C. Dynamic Stochastic General Equilibrium: The New Keynesian Model

II. Consumption Decisions (Romer, Ch. 8, five lectures)

A. The Permanent Income Model* (Hall, Deaton)

B. Asset Pricing* (Lucas)

III. Investment Behavior (Romer, Ch. 9, three lectures)

A. Adjustment Costs and Tobin's *q*

B. Investment under Uncertainty

C. Financial Frictions*

IV. Labor Market Frictions (Romer, Ch. 10, four lectures)

A. The Efficiency Wage model

B. Search and Unemployment* (Mortensen-Pissarides)

V. Monetary Policy and Inflation (Romer, Ch. 11, four lectures)

A. Classical Results: Money and Growth, Seignorage and Inflation

B. Monetary Policy with Nominal Frictions

C. Monetary Indeterminacy* (Obstfeld-Rogoff)

VI. Fiscal Policy (Romer, Ch. 12, three lectures, or as time permits)

A. Classical Results: Ricardian Equivalence

B. Interaction of Fiscal and Monetary Policy

FINAL EXAM, TBA

*refers to additional recommended readings, as indicated