



**MACQUARIE UNIVERSITY**

Division of Economic and Financial Studies

**ECON490: ADVANCED MACROECONOMICS**

UNIT OUTLINE

Semester 2, 2007

## **ECON 490 ADVANCED MACROECONOMICS**

### **ABOUT THIS UNIT**

This unit provides the analytical treatment of the models and tools used by macroeconomists to interpret and manage the economy, as well as the empirical methods used to test the hypotheses proposed. The course covers both theoretical and empirical applications. Topics include: long-term growth, unemployment, fluctuations in consumption and investments, and stabilisation policies. A special emphasis is given to macroeconomic policies relevant to Australia, such as current account imbalances and the determination of the exchange rate.

This unit is also available to postgraduate students in Economics, who enrol as ECON861 Advanced Macroeconomics.

### **TEACHING STAFF**

#### **Max Tani**

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### **LECTURE TIME AND LOCATION:**

**Thursdays, 2-6 pm, in W6B 338**

### **ASSESSMENT**

Mid-term test: week 6 – 2 problems on lectures 1-4 – 20%

By week 13: up to 3,000 words literature review (excluding references and appendices) – 30%

Final exam: - 4 problems on lectures 1-12 – 50%

### **RECOMMENDED TEXT**

D. Romer – *Advanced Macroeconomics* (3<sup>rd</sup> edition), McGraw Hill

### **UNIVERSITY POLICY ON GRADING**

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG). On occasion, your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results. The process of scaling does not change the order of marks among

students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see: <http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or <http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>

### **PLAGIARISM**

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own". Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found on the web at:

<http://www.student.mq.edu.au/plagiarism/>. Penalties may include a deduction of marks, failure in a unit, and/or referral to the University Discipline Committee.

## **PROGRAM AND BASIC REFERENCES (not in alphabetical order!)**

### **Lecture 1 – Growth with exogenous technological change**

Romer – ch. 1

Barro, R. and X. Sala-i-Martin (1995) – ch. 1 (excluding 1.3)

Obstfeld, M. and K. Rogoff (2002), *Foundations of International Macroeconomics*, MIT Press (section 7.1.1)

Solow, R. (1999) in Taylor and Woodford (1999) – ch. 9 (excluding 6-17)

Blanchard, O. and D. Quah (1989), *The Dynamic Effects of Aggregate Demand and Supply Disturbances*, *American Economic Review*, 79, 655-673

Campbell, J. and N. Mankiw (1987a), "Are Output Fluctuations Transitory?", *Quarterly Journal of Economics*, 102, 857-880.

Campbell, J. and N. Mankiw (1987b), "Permanent and Transitory Components in Macroeconomic Fluctuations", *American Economic Review*, May, 111-117.

Mankiw, N.G., Romer, D. and D. Weil (1992), "A Contribution to the Empirics of Economic Growth", *Quarterly Journal of Economics*, 107, 407-437.

Nordhaus, W. (1992), *Lethal Model 2: the Limits to Growth Revisited*, *Brookings Papers on Economic Activity*, 2, 1-59

Mundlak, Y. (2005), *Economic Growth: Lessons from Two Centuries of American Agriculture*, *Journal of Economic Literature*, 43 (XLIII), 989-1024

Swan, T. (1956), "Economic Growth and Capital Accumulation", *Economic Record*, 32, 334-361.

Young, A. (1995), "The Tyranny of Numbers: Confronting the Statistical Reality of the East Asian Growth Experience", *Quarterly Journal of Economics*, 110, 641-680.

### **Lecture 2 – Microeconomic foundations to growth: intertemporal optimisation**

Romer – Ch 2

Blanchard, O. and S. Fischer (1989), *Lectures on Macroeconomics*, MIT Press (ch 2)

Barro, R. and X. Sala-i-Martin, (1995), *Economic Growth*, McGraw Hill (ch 2)

Obstfeld, M. and K. Rogoff (2002), *Foundations of International Macroeconomics*, MIT Press (section 7.1.2)

#### *On dynamic programming*

Sargent, T. (1979), *Macroeconomic Theory*, New York: Academic Press

Sargent, T. (1987), *Dynamic Macroeconomic Theory*, Cambridge, MA: Harvard University Press

Stokey, N., Lucas, R., and E. Prescott (1988), *Recursive Methods in Economic Dynamics*, Cambridge, MA: Harvard University Press

### **Lecture 3 – Endogenous growth**

Romer – Ch 3

Barro and Sala-i-Martin Ch 3

Obstfeld and Rogoff Ch 7 (7.3.1)

McGrattan, E. and Schmitz, J. (1999), *Explaining Cross-Country Income Differences*, in Taylor and Woodford (1999), *Handbook of Macroeconomics* (ch 10)

Schmitt-Grohe, S. (1997), *Comparing four models of aggregate fluctuations due to self-fulfilling expectations*, *Journal of Economic Theory*, 72, 96-147.

Arrow, K. (1962), *The Economic Implications of Learning by Doing*, *Review of Economic Studies*, 29, 153-173.

Kremer, M. (1993), Population Growth and Technological Change: One Million B.C. to 1990, *Quarterly Journal of Economics*, 108, 681-716.

Bernanke, B. and R. Gurkaynak (2001), Is growth exogenous? Taking Mankiw, Romer and Weil seriously, NBER WP 8365

Romer, P. (1986), Increasing Returns and Long-Run Growth, *Journal of Political Economy*, 94, 1002-1037

Rebelo, S. (1991), Long Run Policy Analysis and Long Run Growth, *Journal of Political Economy*, 99, 500-521

Lucas, R. (1988), On the Mechanics of Economic Development, *Journal of Monetary Economics*, 22, 3-42

Dowrick, S. and D. Nguyen (1989), OECD Comparative Economic Growth 1950-1985: Catch-up and Convergence, *American Economic Review*, 79, 1010-1030

Hall, R. and C. Jones (1999), Why Do Some Countries Product So Much More Output per Worker than Others?, *Quarterly Journal of Economics*, 114, 83-116

Jones, C. (2002), Sources of US Economic Growth in a World of Ideas, *American Economic Review*, 92, 220-239

Jones, C. (1995), R&D-based Models of Economic Growth, *Journal of Political Economy*, 103, 759-784

Tani, M. (2006), Head Content or Headcount? Short-term Skilled Labour Movements as a Source of Growth, IZA WP 1934

#### **Lecture 4 – R&D models of growth**

Romer – ch 3

Barro and Sala-i-Martin – ch 6-7

Aghion, P. and P. Howitt (1998), *Endogenous growth*. MIT press

Griliches, Z. (1998), *R&D and Productivity: the Econometric Evidence*, Chicago: University of Chicago Press

Grossman, G. and E. Helpmann (1991), *Innovation and Growth*, MIT Press

Grossman, G. and E. Helpmann (1994), Endogenous innovation in the theory of economic growth, *Journal of Economic Perspectives*, Winter, 23-44

Dixit, A. and J. Stiglitz (1977), Monopolistic Competition and optimum Product Diversity, *American Economic Review*, 67, 297-308

Ethier, W. (1992), National and International returns to Scale in the Modern Theory of International Trade, *American Economic Review*, 72, 389-405

Krugman, P. (1991), History vs. Expectations, *Quarterly Journal of Economics*, 106, 651-667

Mowery, D. and Rosenberg, N. (1989), *Technology and the Pursuit of Economic Growth*, Cambridge: Cambridge University Press

Romer, P. (1990), Endogenous Technological Change, *Journal of Political Economy*, 98, S71-S102

#### **Lecture 5 – Unemployment**

Romer – Ch 9

Blanchard and Fischer – ch 9

Akerlof, G. and J. Yellen (1990), The Fair Wage-Effort Hypothesis and Unemployment, *Quarterly Journal of Economics*, 105, 255-283

Bils, M. (1987), The Cyclical Behaviour of Marginal Cost and Price, *American Economic Review*, 77, 838-857.

Mortensen, D. and C. Pissarides (1999), Job Reallocation, Employment Fluctuations and Unemployment, in Taylor and Woodford, *Handbook of Macroeconomics*, ch. 18, 1171-1228

Agell, J. and H. Benmarker (2003), Endogenous Wage Policy, CESifo WP 1081

Blanchflower, D and A. Oswald (1994), *The Wage Curve*, MIT Press  
Shapiro, C. and J. Stiglitz (1984), *Equilibrium Unemployment as a Worker Discipline Device*, *American Economic Review*, 74, 433-444  
Yellen, J. (1984), *Efficiency Wage Models of Unemployment*, *American Economic Review*, 74, 200-205  
Hall, R. (2005), *Employment Fluctuations with Equilibrium Wage Stickiness*, *American Economic Review*, 95(1), 50-65  
Saint-Paul, G. (2004), *Why are European Countries Diverging in their Unemployment Experience?*, *Journal of Economic Perspectives*, 18(4), 49-68

## **Lecture 6 – Introduction to business cycles: RBC, money, and Keynesian modelling**

Romer – ch. 4, 5, and 6  
Blanchard and Fischer – ch 4, 7, 8  
Cagan, P. (1956), *The Monetary Dynamics of Hyperinflation*, in M. Friedman (ed.), *Studies in the Quantity Theory of Money*, 25-117, Chicago: University of Chicago Press.  
Kiyotaki, N. and R. Wright (1988), *On Money as a Medium of Exchange*,  
Campbell, J. and N. Mankiw (1987a), *“Are Output Fluctuations Transitory?”*, *Quarterly Journal of Economics*, 102, 857-880.  
Campbell, J. and N. Mankiw (1987b), *“Permanent and Transitory Components in Macroeconomic Fluctuations”*, *American Economic Review*, May, 111-117.  
Stock, J. and M. Watson (1999) *Business Cycle Fluctuations in US Macroeconomic Time Series*, in Taylor and Woodford, *Handbook of Macroeconomics*, ch. 1, 3-64.  
Lucas, R. (1972), *Expectations and the Neutrality of Money*, *Journal of Economic Theory*, 4, 103-124  
Altonji, J. (1986), *Intertemporal Substitution in Labour Supply: Evidence from Micro Data*, *Journal of Political Economy*, 94(2), S176-S215  
Kydland, F. and E. Prescott (1982), *Time to Build and Aggregate Fluctuations*, *Econometrica*, 50(6), 1345-1370  
King, R. and S. Rebelo (1999), *Resuscitating Real Business Cycles*, Taylor and Woodford, *Handbook of Macroeconomics*, ch. 14, 928-1007  
Taylor, J. (1999), *Staggered Price and Wage Setting in Macroeconomics*, in Taylor and Woodford, *Handbook of Macroeconomics*, ch. 15, 1009-1050  
Ball, L. and D. Romer (1990), *Real Rigidities and the Non-neutrality of Money*, *Review of Economic Studies*, 57, 183-203  
Blanchard, O. and N. Kiyotaki (1987), *Monopolistic Competition and the Effects of Aggregate Demand*, *American Economic Review*, 77, 647-666  
Rotemberg, J. and Woodford, M. (1999), *The Cyclical Behaviour of Prices and Costs*, in Taylor and Woodford, *Handbook of Macroeconomics*, ch. 16, 1051-1136  
Kiyotaki, N. and Moore, J. (1997), *Credit Cycles*, *Journal of Political Economy*, 105, 211-248  
Hodrick, R. and E. Prescott (1997), *Post-war US Business Cycles: An empirical Investigation*, *Journal of Money, Credit, and Banking*, 29, 1-16  
Fisher, L., Otto, G., and G. Voss (1996), *Australian Business Cycles Facts*, *Australian Economic Papers*, 35, 202-222

## **Lecture 7 – Consumption**

Romer – ch 7  
Deaton, A. (1986), *Life Cycle Models of Consumption: Is the Evidence Consistent with the Theory?*, NBER WP 1910

- Attanasio, O. (1999), Consumption, in Taylor and Woodford, Handbook of Macroeconomics, ch. 11, 741-812
- Angeletos, G., Laibson, D., Repetto, A., Tobacman, J., and S. Weinberg (2001), The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation, Journal of Economic Perspectives, 15, 47-68
- Barro, R. (1974), Are Government Bonds Net Wealth? Journal of Political Economy, 82, 1095-1117

### **Lecture 8 – Investments**

- Romer – ch 8
- Blanchard and Fischer – ch 6
- Dixit, A. and Pindyck, R. (1994), Investment under Uncertainty, Princeton: Princeton University Press
- Caballero, R. (1999), Aggregate Investment, in Taylor and Woodford, Handbook of Macroeconomics, ch. 12, 813-862

### **Lecture 9 – Monetary and fiscal policies**

- Romer – ch 10
- Blanchard and Fisher – ch 11
- Taylor, J. (ed) (1999), Monetary Policy Rules, Chicago: University of Chicago Press
- Woodford, M. (2003), Interest and Prices: Foundations of a theory of Monetary Policy, Princeton: Princeton University Press
- Bernanke, B. and M. Woodford (1997), Inflation Forecasts and Monetary Policy, Journal of Money, Credit and Banking, 29(2), 653-684
- Chari, V. and P. Kehoe (1999), Optimal Fiscal and Monetary Policy, in Taylor and Woodford, Handbook of Macroeconomics, ch. 26, 1671-1745
- McCallum, B. (1999), Issues in the Design of Monetary Policy Rules, in Taylor and Woodford, Handbook of Macroeconomics, ch. 23, 1483-1530
- Romer, C. and D. Romer (2004), A New Measure of Monetary Shocks: Derivation and Implications, American Economic Review, 94, 1055-1084
- Sims, C. (1992), Interpreting the Macroeconomic Time Series Facts: The Effects of Monetary Policy, European Economic Review, 36, 975-1000
- Lucas, R. (1976), Econometric Policy Evaluation: A Critique, Carnegie Rochester Conference Series on Public Policy, 1, 19-46
- Campbell, J. and N. Mankiw (1991), The Response of Consumption to Income – A Cross-Country Investigation, European Economic Review, 35, 723-767
- Agell, J. and L. Berg (1996), Does Financial Deregulation Cause a Consumption Boom?, Scandinavian Journal of Economics, 98, 579-601
- Kydland, F. and E. Prescott (1977), Rules Rather than Discretion: The Inconsistency of Optimal Plans, Journal of Political Economy, 88, 867-896
- Barro, R. and D. Gordon (1983), A Positive Theory of Monetary Policy in a Natural Rate Model, Journal of Political Economy, 91, 589-610

### **Lecture 10 – The current account**

- Obstfeld and Rogoff – ch 2, 3, 10
- Blanchard and Fischer – ch 2
- Obstfeld, M. and K. Rogoff (1995), The Intertemporal Approach to the Current Account, in Grossman and Rogoff, Handbook of International Economics

Bergin, P. (2004), How Well Can the New Open Macroeconomics Explain the Exchange Rate and Current Account?, NBER WP 10356

### **Lecture 11 – The exchange rate**

Obstfeld and Rogoff – ch 4, 9, 10

Dornbush, R. (1976), Expectations and Exchange Rate Dynamics, *Journal of Political Economy*, 84, 1161-1176

Fischer, S. (2001), Exchange Rate Regimes – Is the Bipolar View Correct? *Journal of Economic Perspectives*, 15, 4

Barr, D., Breedon, F., and D. Miles (2003), Life on the Outside: Economic Conditions and Prospects Outside Euroland, *Economic Policy: A European Forum*, October, 573-613

Obstfeld, M. and K. Rogoff (2000), The Six Major Puzzles in International Macroeconomics: Is There a Common Cause? NBER WP 7777

Crucini, M., Telmer, C., and M. Zachariadis (2005), Understanding European Real Exchange Rates, *American Economic Review*, 95(3), 724-738

**NB: Mid-term test in week 6. Revision in week 13**