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

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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 (3rd 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.


**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

Lecture 2 – Microeconomic foundations to growth: intertemporal optimisation
Romer – Ch 2
Blanchard, O. and S. Fischer (1989), Lectures on Macroeconomics, MIT Press (ch 2)

On dynamic programming

Lecture 3 – Endogenous growth
Romer – Ch 3
Barro and Sala-i-Martin Ch 3
Obstfeld and Rogoff Ch 7 (7.3.1)
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

**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
Mortensen, D. and C. Pissarides (1999), Job Reallocations, Employment Fluctuations and Unemployment, in Taylor and Woodford, Handbook of Macroeconomics, ch. 18, 1171-1228
Agell, J. and H. Bennymarker (2003), Endogenous Wage Policy, CESifo WP 1081
Blanchflower, D and A. Oswald (1994), The Wage Curve, MIT Press
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
Kydland, F. and E. Prescott (1982), Time to Build and Aggregate Fluctuations, Econometrica, 50(6), 1345-1370
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 Cyclic Behaviour of Prices and Costs, in Taylor and Woodford, Handbook of Macroeconomics, ch. 16, 1051-1136

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

**Lecture 8 - Investments**
Romer – ch 8
Blanchard and Fischer – ch 6
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
Romer, C. and D. Romer (2004), A New Measure of Monetary Shocks: Derivation and Implications, American Economic Review, 94, 1055-1084

**Lecture 10 - The current account**
Obstfeld and Rogoff – ch 2, 3, 10
Blanchard and Fischer – ch 2
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


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**