ECON490 – ECON861
Advanced Macroeconomics

This unit 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. The course follows the recommended text, though journal articles are covered on a weekly basis.


Credit Points: 3
Contact Hours: 3
When Offered: Thursday, S2
Staff Contact: Dr Massimiliano Tani (room 442, E4A), x8499
Assessment Analytical summaries and presentation (best 2: 10%),
Mid-term test – Week 5 (20%)
Final test – Week 12 (30%)
Project (literature review) (40%)

Offered By: Department of Economics

Assessment:
1. Analytical summaries: 500 words (= 2 pages max) summary of key articles addressing:
   a. Key question
   b. Relationship to existing literature
   c. Methodology/model
   d. Data and empirics

   Presentation in tutorial attracts either a neutral or a +.

2. Mid-term test: week 6 – one hour, two problems open text test covering growth;

3. Final test: week 12 – 1.5 hour, three problems open text covering business cycle;

4. Project: up to 3,000 words literature review (excluding references and appendices) on topics of choice. Must be handed in on or before the end of the lecture on week 10.

5. There is no final exam.
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<th>Week</th>
<th>Topic</th>
<th>Lecture</th>
<th>Tutorial problems</th>
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<td>10</td>
<td>Stabilisation policy</td>
<td>S: 20, 21, 22</td>
<td>Problems: 4 p.595</td>
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<td>11</td>
<td>The AS-AD model in the open economy</td>
<td>S: 23</td>
<td>Problems: 3 p.627, 2 p.657</td>
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<td>12</td>
<td>Fixed and Flexible exchange rates</td>
<td>S: 24, 25, 26</td>
<td>Problems: 1 p.725</td>
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<td>13</td>
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<td>Problems: 5 p.761, 3 p.793</td>
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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.
BASIC REFERENCES (not in alphabetical order!)

Growth with exogenous technological change
Romer – ch. 1

Microeconomic foundations to growth: intertemporal optimisation
Romer – Ch 2
Blanchard, O. and S. Fischer (1989), Lectures on Macroeconomics, MIT Press (ch 2)
Obstfeld, M, and K. Rogoff (2002), Foundations of International Macroeconomics, MIT Press (section 7.1.2)

On dynamic programming

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

R&D models of growth
Romer – ch 3
Barro and Sala-i-Martin – ch 6-7

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 Reallocation, Employment Fluctuations and Unemployment, in Taylor and Woodford, Handbook of Macroeconomics, ch. 18, 1171-1228
Agell, J. and H. Bennmarker (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
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

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

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
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

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

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