

# Macroeconomic I (Ph.D.)

## Textbooks:

You may find the following text books useful to read ( Krusell note will be used substantially in the first section of the course)

\* Per Krusell, Lecture notes for Macroeconomics I, 2004 (K)

\* Jerome Adda and Russell Cooper, MIT Press, 2003 (AC)

\* Nancy Stokey and Robert E. Lucas, Recursive Methods in Economic Dynamics, Cambridge, Mass.: Harvard University Press, 1989. (SL)

\* Thomas Sargent, Dynamic Macroeconomic Theory, Cambridge, Mass.: Harvard University Press, 1987. (TS)

\* Lars Lundquist and Thomas Sargent, Recursive Macroeconomic Theory, Cambridge, Mass.: MIT Press, 2000. (LS)

Costas Azariadis, Intertemporal Macroeconomics, Cambridge, Mass.: Blackwell, 1993. (CA)

Olivier Blanchard and Stanley Fischer, Lectures on Macroeconomics, Cambridge: MIT Press, 1989. (BF)

Andreu Mas-Colell, Michael Whinston and Jerry Green, Microeconomic Theory , Oxford University Press, 1995.

George McCandless with Neil Wallace, Introduction to Dynamic Macroeconomic Theory Cambridge: Harvard University Press, 1991.

**I. Dynamic Optimization: Discrete Time** (Arrow-Debrue, Sequential Market, Endowment and Capital Economy, Dynamic Programming, CE, Non-Stochastic Growth, HH, Firm, Stochastic Optimization)

- AC, Ch. 2,3,5
- \* Krusell, Ch2,3,4,5
- Harris, M. Dynamic Economic Analysis, Oxford Univ. Press, 1987. Ch1,2
- Intriligator, M. Mathematical Optimization and Economic Theory, Prentice Hall, 1971. Ch. 13.
- LS, Ch. 2,3,4
- Sargent, T. Dynamic Macroeconomic Theory, Cambridge, Mass.: Harvard University Press, 1987. Ch. 1., Appendix
- \* Stokey, N. and Robert E. Lucas, Recursive Methods in Economic Dynamics, Cambridge, Mass.: Harvard University Press, 1989. Ch 2,5,10
- Azariadis, Ch. 7,13.
- BF Ch. 2
- Brock, W. and L. Mirman, "Optimal Economic Growth and Uncertainty: The Discounted Case," Journal of Economic Theory, 4 (1972), 479-513.
- Cass, D."Optimum Growth in an Aggregative Model of Capital Accumulation," Review of Economic Studies, 32 (1965), 233-40.
- Koopmans, T. "On The Concept of Optimal Economic Growth," in The Econometric Approach to Development Planning, North Holland, 1965.
- Solow, R. "A Contribution to the Theory of Economic Growth," Quarterly Journal of Economics, 70 (1956), 65-94.
- \* Krusell, Ch 6
- SL, Chp 8

## II. Real Business Cycles ( Data, Linearizing Necessary Conditions, Method of Undetermined Coefficients, Indivisible Labor, Business Cycle Accounting )

- Blanchard, O.J. and D. Quah (1989) "The Dynamic Effects of Aggregate Demand and Supply Disturbances", *American Economic Review*, Vol. 79, pp. 655-73. (Var)
- Lucas, R. (1976) "Econometric Policy Evaluation: A Critique", *Carnegie-Rochester Conference on Public Policy*, vol. 1.
- \* Kydland, F. and E. Prescott (1990) "Business Cycles: Real Facts and a Monetary Myth", *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 14, No. 2 pp. 2-18.
- McCandless, G. and W. Weber (1995) "Some Monetary Facts", *Federal Reserve Bank of Minneapolis Quarterly Review*, Vol. 19, No. 3 pp.2-11.
- \* Prescott, "Theory Ahead of Real Business Measurement" 1987
- D. Krueger, *Quantitative Macroeconomics: An Introduction*, 2007
- Christiano, L. (2002), "Solving Dynamic Equilibrium Models by a Method of Undetermined Coefficients", *Computational Economics*, Vol. 20, p. 21-55.
- Uribe, M., Schmitt-Grohe, "Solving Dynamic General Equilibrium Models Using a Second-Order Approximation to the Policy Function", *Journal of Economic Dynamics and Control*, vol. 28, January 2004, pp. 755-775. [[Matlab Code.](#)]
- \* Cooley, T. and E. Prescott (1995) "Economic Growth and Business Cycles", in *Frontiers of Business Cycle Research*, Princeton: Princeton University Press. (Chp. 1)
- Kydland, F. and E. Prescott (1982) "Time to Build and Aggregate Fluctuations", *Econometrica*, Vol. 50, pp. 1345-70.
- Lucas, "Macroeconomic Priorities" *AER*, 2003
- Krusell, Mukuyama, Smith, Sahin, "Revisiting the welfare effects of eliminating business cycles", 2009, RED
- \* Hansen, G. (1985) "Indivisible Labor and the Business Cycle", *Journal of Monetary Economics*, Vol. 16, pp. 309-27.
- Schmitt-Grohé, S. and Uribe, M. (2012), What's News in Business Cycles. *Econometrica*, 80: 2733–2764.
- Angeletos, G.-M. and La'O, J. (2013), Sentiments. *Econometrica*, 81: 739–779.
- The Great Diversification and its Undoing Carvalho, Vasco; Gabaix, Xavier *The American Economic Review*, Volume 103, Number 5, August 2013, pp. 1697-1727(31)
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## III. Asset Market ( Lucas Tree, Risk Premium Puzzle)

- Hansen, L. 1982. "Large Sample Properties of Generalized Method of Moments Estimators", *Econometrica*, 50, p. 1029-54.
- Hansen, L. and K. Singleton. 1982. "Generalized Instrumental Variables Estimation of Nonlinear Rational Expectations Models", *Econometrica*, 50, p. 1269-86.
- \* Lucas, R. (1978) "Asset Prices in an Exchange Economy", *Econometrica*, Vol. 46, pp. 1429-45.
- Kocherlakota, "The Equity Premium: It's Still A Puzzle," *Journal of Economic Literature*. 1996
- \* Mehra, R. and E. Prescott (1985) "The Equity Premium: A Puzzle", *Journal of Monetary Economics*, Vol. 15, pp. 145-162.
- Boldrin, Fisher, "Habit Persistence, Assets Returns and the Business Cycle". *American Economic Review* 91 (2001), 149-166

### III. Labor Market ( (s,S), search, bargaining, estimation )

- Pissarides, Christopher; Equilibrium Unemployment Theory, MIT Press, 2000
- \* Merz, "Search in the Labor Market and the Real Business Cycle", Journal of Monetary Economics, Vol.36, p. 269-300.
- Mortensen, Dale and Christopher Pissarides (1994). "Job Creation and Job Destruction in the Theory of Unemployment" Review of Economic Studies Vol 61, pp 397-416.
- \* Cole, Rogerson "Can The Mortensen-Pissariadis Matching Model Math the Business Cycle Facts" 1999, International Economic Review.
- \* Wolpin, 1987, "Estimating a Structural Search Model" Econometrica
- Rogerson, Richard, Robert Shimer and Randall Wright (2004) "Search Models of the Labor Market: A Survey" Journal of Economic Literature, 43, pp. 959-988.
- Acemoglu, Daron (1998). "Changes in Unemployment and Wage Inequality: An Alternative Theory and Some Evidence," American Economic Review 89 (1999a), 1259-1278.
- Acemoglu, Daron (2001), "Good Jobs vs Bad Jobs" Journal of Labor Economics, January 2001, vol 19, pp 1-22.
- Erosa, Fuster, Restuccia, "A General Equilibrium Analysis of Parental Leave Policies", 2008, (Similar matching model for family economics and nice policy analysis for Parental Leave Policies)
- Aiyagari, J Greenwood, N Guner -"On The State of Union" Journal of Political Economy, 2000, (This paper concern on matching from other point of view and nice application and policy analysis of matching in marriage and divorce)
- Galemlanos, Pacula, Persico, " A Search Theoric Model of the Retail Market for Illicit Drugs", 2009

### IV. Money Search.

- Lagos, R. and R. Wright (2002) "A Unified Framework for Monetary Theory and Policy Analysis"
- \* Trejos, A. and R. Wright (1995) "Search, Bargaining, Money and .Prices", Journal of Political Economy, Vol. 103, p. 118-139.

### V. Recursive Commitment Problem

#### Consumption Smoothing (One Sided Commitment, Two Sided Commitment)

- Townsend, R. (1982), "Optimal Multiperiod Contracts and the Gain from Enduring Relationships under Private Information," Journal of Political Economy, 90, 1166-86.
- Holmstrom, B. (1979), "Moral Hazard and Observability," Bell Journal of Economics, 10, 74-91.
- Rogerson, W. (1985), "Repeated Moral Hazard", Econometrica, 53, 69- 76.
- Rogerson, W. (1985), "The First-Order Approach To Approach Principal-Agent Problems", Econometrica, 53, 1357-1367.
- \* Thomas, J. and T. Worrall (1990), "Income Fluctuation and Asymmetric Information: An Example of a Repeated Principal-Agent Problem", Journal of Economic Theory, 51, 367-90.
- Cole, H. and N. Kocherlakota (2001), "Efficient Allocations with Hidden Income and Hidden Storage," Review of Economic Studies, 68, 523-42.
- Atkeson, A. and R. Lucas (1992), "On Efficient Distribution With Private Information," Review of Economic Studies, 59, 427-53.

- \*Kocherlakota, N. (1996), “Implications of Efficient Risk Sharing without Commitment,” *Review of Economic Studies*, 63, 595-609.

#### **Unemployment (Insurance)**

- \*Hopenhayn, H. and J. Nicolini (1997), “Optimal Unemployment Insurance”, *Journal of Political Economy*, 105, 412-38.
- Atkeson, A. and R. Lucas (1995), “Efficiency and Equality in a Simple Model of Efficient Unemployment Insurance” *Journal of Economic Theory*, 66, 64-88.

#### **Business Cycle**

- Kocherlakota, N. (2000), “Creating Business Cycles Through Credit Constraints”, *Federal Reserve Bank of Minneapolis Quarterly Review*, Summer, p. 2-10.
- Kiyotaki, N. and J. Moore (1997) “Credit Cycles”, *Journal of Political Economy*, 105, 211-48.

#### **Asset Pricing**

- Kehoe, T. and D. Levine (1993), “Debt Constrained Asset Markets”, *Review of Economic Studies*, 60, 865-88.
- Alvarez, F and Jermann U “Efficiency, Equilibrium, and Asset Pricing with Risk of Default” *Econometrica* 68.4 (2000) 775-797