

Econ 5250 Macroeconomic Theory 1

Fall 2020
Instructor: Pengfei Wang
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Office Hours: by appointment (online)

Requirements

Homework: 20%
Midterm Exam: 30%
Final Exam: 50%

Textbooks

D.Romer, Advanced Macroeconomics (required).

L. Ljungqvist and T. Sargent, Recursive Macroeconomic Theory, (optional).

Course Outline

Part 1. Introduction to Macroeconomics (1.5 week)

1. Macroeconomic Facts
2. The revolution of Macroeconomic Theory
3. Introduction to Dynamic Program

Reference:

- a. Romer "Introduction"
- b. Jones , "The Facts of Economic Growth", 2016
- c. Mark, and Gopinath. "Emerging market business cycles: The cycle is the trend", Journal of Political Economy (2005) 115(1):69-102.
- d. Olivier Blanchard, "What do we know about macroeconomics that Fisher and Wicksell did not?" , QJE 115, no.4 (November 2000): 1375-1410
- e. Woodford, M., "Revolution and Evolution in Twentieth-Century Macroeconomics."
- f. N. Gregory Mankiw, "The Macroeconomist as Scientist and Engineer."
- g. V. V. Chari and Patrick J.Kehoe, "Modern Macroeconomics in Practice: How Theory Is Shaping Policy."

Part 2. Growth Theory (4 weeks)

1. Solow Model and the Neoclassical Aggregate Production function (1 week)

Reference:

- a. D.Romer, Chapter 1
- b. Prescott, "Robert M. Solow's Neoclassical Growth Model: An Influential Contribution to Economics"
- c. H. S. Houthakker, "The Pareto Distribution and the Cobb-Douglas Production", *The Review of Economic Studies*, Volume 23, Issue 1, 1955, Pages 27–31
- d. Hsieh, Chang-Tai, and Peter J. Klenow. "Misallocation and manufacturing TFP in China and India." *The Quarterly journal of economics* 124.4 (2009): 1403-1448.
- e. Lagos, Ricardo, "A model of TFP", *The Review of Economic Studies* 73.4 (2006): 983-1007.

2. The Ramsey-Cass-Koopmans Model (2 weeks)

Reference:

- a. D.Romer, Chapter 2
- b. Strotz, "Myopia and inconsistency in dynamic utility maximization." *The review of economic studies* 23.3 (1955): 165-180.
- c. Laibson, David. "Golden eggs and hyperbolic discounting." *The Quarterly Journal of Economics* 112.2 (1997): 443-478.

3. Overlapping Generation Model (1 weeks)

Reference:

- a. Diamond, Peter A. "National debt in a neoclassical growth model." *The American Economic Review* 55.5 (1965): 1126-1150.
- b. Blanchard, Olivier J. "Debt, deficits, and finite horizons." *Journal of political economy* 93.2 (1985): 223-247.
- c. Weil, Philippe. "Overlapping families of infinitely-lived agents." *Journal of public economics* 38.2 (1989): 183-198.
- d. Tirole, Jean. "Asset bubbles and overlapping generations." *Econometrica: Journal of the Econometric Society* (1985): 1499-1528.

4. Endogenous Growth Theory (1 weeks)

Reference:

- a. Paul Romer, "Endogenous technological change," *Journal of Political Economy* 98 (Part 2), S71-S102.
 - b. Lucas, Robert, E. Jr. "On the Mechanics of Economic Development," *Journal of Monetary Economics*, Vol. 22, 1988:3--42
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Part 3. Classic Real Business Cycle Theory (3 weeks)

1. The canonical Real Business cycle model (2 weeks)

Reference:

- a. R. King, S. Rebelo, and C. Plosser, "Production, growth, and the business cycle," *JME* 21 (1988), 195-232.
- b. Lecture note on Calibration, log-linearization, and solution methods.
- c. D. Romer, Chapter 4.
- d. Models with adjustment costs

2. Indeterminacy and Sunspots (1 week)

References:

- a. Benhabib, J, and R.E Farmer (1994), "Indeterminacy and increasing return", *Journal of Economic Theory* 63: 19-41
- b. Wen Y. (1994), "Capacity utilization under increasing return to scale", *Journal of Economic Theory*.
- c. Liu, Zheng, and Pengfei Wang. "Credit constraints and self-fulfilling business cycles." *American Economic Journal: Macroeconomics* 6.1 (2014): 32-69.

Part 4. Consumption Based Asset pricing

D. Romer Chapter 7

Implication for Asset pricing:

Larry G. Epstein; Stanley E. Zin, Substitution, Risk Aversion, and the Temporal Behavior of Consumption and Asset Returns: An Empirical Analysis, *JPE*, Vol. 99, No. 2. (Apr., 1991), pp. 263-286.

Urban J. Jermann, "Asset pricing in production economies", *Journal of Monetary Economics*, Volume 41, Issue 2, 27 February 1998, Pages 257-275.

Welfare cost of Business Cycle:

Part 5. Models with financial frictions (2 weeks)

D.Romer , Chapter 8

Douglas Gale, Martin Hellwig, "Incentive-Compatible Debt Contracts: The One-Period Problem", *The Review of Economic Studies*, Vol. 52, No. 4. (Oct., 1985), pp. 647-663.

Charles T. Carlstrom; Timothy S. Fuerst, "Agency Costs, Net Worth, and Business Fluctuations: A Computable General Equilibrium Analysis", *The American Economic Review*, Vol. 87, No. 5. (Dec., 1997), pp. 893-910.

Nobuhiro Kiyotaki and John Moore (1997), "Credit Cycles." *Journal of Political Economy*, 1997, 105(2), pp. 211-48"

Bengt Holmstrom; Jean Tirole (1997), "Financial Intermediation, Loanable Funds, and the Real Sector", *The Quarterly Journal of Economics*, Vol. 112, No.3, pp663-691."