

DEPARTMENT OF ECONOMICS
HONG KONG UNIVERSITY OF SCIENCE AND TECHNOLOGY

ECON 5250 - MACROECONOMIC THEORY I - FALL 2022

SYLLABUS

Version date: August 11, 2022

[Check Latest Version](#)

Instructor:	Marc Dordal i Carreras	Class Time:	M/W 13:30 – 15:20
Email:	marcdordal@ust.hk	Class Place:	LSK1026
Phone:	(852) 2358-7964	OH Time:	W 15:45 – 16:45
		OH Place:	LSK6078
TA:	TBD	TA OH Time:	TBD
TA Email:	TBD	TA OH Place:	TBD

Course Pages:

1. <https://canvas.ust.hk/courses/45951>

Office Hours (OH): After class, at the scheduled OH time (prior [sign up required](#)), through the course forum provided for this purpose on Canvas, or by appointment.

Course Description and Objectives: This course is primarily designed for first year Ph.D students. The objectives are twofold. By the end of the course, you are expected to have learned the basic foundations of Macroeconomic Theory, which we will roughly divide between long-term growth and business cycle theories. The second objective of the course is to build your technical skills in solving a variety of dynamic programming problems commonly found in the macro literature.

Prerequisites: This course is for Ph.D student in Economics and also available to other students as permitted by the regulations. Students are also expected to have completed intermediate/advanced undergraduate-level and basic undergraduate mathematical and (more specifically) linear algebra knowledge is assumed.

Learning Outcomes – Program Intended Learning Outcomes (“PILOs”):

Upon successful completion of this course, you should be able to:

1. Have an up-to-date and in-depth knowledge of basic/intermediate macroeconomics, especially long-run growth and business cycle theories. Understand the important questions of these literatures and the main components of growth and business cycle theories; (SILO #4).
2. Grasp the advanced mathematical and quantitative tools to understand the important macroeconomic research questions discussed in the literature; (SILO #3, #4).
3. Apply the concepts, principles, and models learnt in this course to analyze economic phenomena and the current macroeconomic events and its impact on the business environment and the economy; (SILO #1 #2).

4. Apply growth and business cycle theories and models to understand and evaluate the effects of different policies, possible effects and causes of recent crisis, and heterogeneous growth profiles of countries around the world; (SILO #1 #3 #6).
5. Think critically and creatively when making effective economic decisions and policy suggestions supported by macroeconomic theories and analytical and quantitative techniques; (SILO #1 #3)
6. Communicate effectively in oral and written English; (SILO #2)
7. Demonstrate proficiency in using mathematical, quantitative and empirical tools in conducting economics research; (SILO #1, #3 #4)
8. Locate, gather, and analyze data using appropriate information technology, software and systems. (SILO #7)

For the details of SILOs, please refer to:

<http://undergrad.bm.ust.hk/academics/academic-programs/learning-outcomes>

Teaching Approach

This course is primarily delivered through lectures and class discussion.

Teaching and Learning Activities	Roles in the Course	Course Learning Outcome Addressed
Lectures with in class discussions	Explain key concepts and models to students	1, 2, 3, 4, 5, 6, 7, 8
Homework assignments	Practice problem solving, data collection and apply models to analyze economic issues	1, 2, 3, 4, 6, 7, 8
Exams	Problem solving and understanding of course materials	1, 2, 3, 4, 6, 7

Grading Policy: Homework (20%), Midterm (30%), Final (50%).

Important Dates:

Homework Next Monday (in class)
 Midterm TBA
 Final Exam TBA

Tutorial sessions: This course will not feature any regularly scheduled tutorial sessions with the TA (that is, in addition to the Professor regular lectures). Problem set solutions will be made available online after the submission deadline. I reserve the right to schedule (optional attendance) TA Tutorials on topics or problem sets if I perceive that the class is having difficulties comprehending the concepts.

Course Policy:

- Please sign up for Canvas. I will confirm your enrollment for the course, then you will be able to see the course page.
- Voluntary response to my questions is highly welcomed, but be prepared to be randomly cold called as well (corollary: read the mandatory book chapters/readings for the corresponding lecture).

Class Policy:

- Regular attendance is essential and expected, but not mandatory (i.e. you can miss class if you have an important obligation, etc).
- Please turn off/silence your electronics (phones, computers, etc) before entering class. Using a laptop to take notes is allowed, as long as it does not disrupt the flow of the class.

Late Submissions: Late problem set submissions will not be accepted and assigned a grade of zero. Exceptions include Special Education Needs (SEN) approved accommodations and reasonable and verifiable excuses (e.g. medical emergency).

Academic Honesty: Any cheating will result in a grade of zero and the student being reported to the competent academic authority for disciplinary action. See [Regulations for Student Conduct and Academic Integrity](#). Written work might be checked for originality using Turnitin. You can work/discuss problem sets in groups, but you are expected to submit original individual solutions.

Academic Calendar and General Holidays: The course will be following the Fall 2022 HKUST Academic Calendar and observe the General Holidays, Study Breaks, etc. Link: <https://registry.hkust.edu.hk/resource-library/calendar-dates-2022-23>

Preferred name: You can address me with the degree of formality you feel comfortable, but simply calling me Marc without the “Professor” title is acceptable and encouraged. My preferred pronouns are he/him. I will address you with the name provided in the course roster, if you would like me to use a different name and/or pronouns, please let me know at the beginning of the course.

Special Accommodation: If you require special accommodation, you should speak with me and/or the TA at the beginning of the semester. Please contact as well and provide required documentation to the [Special Education Needs \(SEN\) Support Program](#). Please remind me with sufficient time if you require special accommodation for future midterm/exam.

Sexual Harassment and Discrimination: The Hong Kong University of Science and Technology is committed to ensuring a safe, positive and pleasant environment for students and staff alike. We thus do not in any way condone, nor tolerate, any form of sexual harassment or discrimination. The University has a sound protocol for the complaint procedures, and urges individuals to fully utilize such. You can find more information at <https://gdc.hkust.edu.hk/policy-1.html> and at Hong Kong’s Equal Opportunities Commission <https://www.eoc.org.hk/en/>.

Resources: These are difficult and challenging times. Forgive yourself if you are struggling. There are resources available to you to help.

- HKUST Counseling and Wellness Center. (852) 2358 6696. 24/7 helpline: (852) 2358 6696. <https://counsel.ust.hk/index.php>.
- Suicide Prevention Service. Hotline: (852) 2382 0000. <https://www.sps.org.hk/>
- HKUST Security Office (On campus - report of top emergencies) (852) 2358 8999.
Hong Kong Police Force (Off campus) (852) 999

Main References: This is a restricted list of various interesting and useful books that will be touched during the course. You might need to consult them occasionally, but for now the only one you might truly consider buying is Acemoglu's (most readings of the first half of the course will be from this book). The second part of the course covers different topics. Optimally, I would like to use only one book for the topics of the second half, and Romer covers most of them, but sometimes not with the depth that I would like. If I can supplement it well enough with my own materials, we will stick with it. Otherwise, we might use Adda & Cooper and Deaton books for punctual topics as well.

- Daron Acemoglu, *Introduction to modern economic growth*, Princeton University Press, 2009. [HKUST library link](#). – Main textbook first half (growth).
- David Romer, *Advanced Macroeconomics*, McGraw-Hill, 2018. [HKUST library link](#). – (Optional) Alternative textbook, covers same/similar topics. You might check it as a study complement.
- Jerome Adda and Russell Cooper, *Dynamic economics: quantitative methods and applications*, MIT press, 2003. - Punctual topics on the second half of the course.
- Angus Deaton, *Understanding consumption*, Oxford University Press, 1992. - Punctual topics on the second half of the course.
- Lars Ljungqvist, Thomas J. Sargent, *Recursive Macroeconomic Theory*, MIT Press, 2018. [HKUST library link](#). – (Very optional)

Course Outline:

Part 1. Introduction to Macroeconomics (0.5 weeks)

1. Macroeconomic Facts
2. The Revolution of Macroeconomic Theory
3. Introduction to Dynamic Programming

References:

- a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 1; Lecture notes.
- b. Optional readings: [Romer \(2018\)](#) book “Introduction” (quite useful); [Jones \(2016\)](#), [Aguiar and Gopinath \(2007\)](#), [Blanchard \(2000\)](#), [Woodford \(1999\)](#), [Mankiw \(2006\)](#), [Chari and Kehoe \(2006\)](#).

Part 2. Growth Theory (4.5 weeks)

1. Solow Model and the Neoclassical Aggregate Production function (0.5 week)

References:

- a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 2-3; Lecture notes.
- b. Optional readings: [Romer \(2018\)](#) book Ch. 1; [Hall and Jones \(1999\)](#), [Mankiw et al. \(1992\)](#), [Prescott \(1988\)](#), [Houthakker \(1955\)](#), [Hsieh and Klenow \(2009\)](#), [Lagos \(2006\)](#).

2. Foundations of Neoclassical Growth (0.5 week)

References:

- a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 5; Lecture notes.

3. Dynamic Programming and Optimal Control Theory (1 weeks)

References:

a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 6 and 7; Lecture notes.

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

References:

a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 8; Lecture notes.

b. Optional readings: [Romer \(2018\)](#) book Ch. 2; [Strotz \(1955\)](#), [Laibson \(1997\)](#).

5. Overlapping Generation Model (0.5 weeks)

References:

a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 9; Lecture notes.

b. Optional readings: [Diamond \(1965\)](#); [Blanchard \(1985\)](#); [Weil \(1989\)](#); [Tirole \(1985\)](#)

6. Human Capital and Economic Growth (0.5 weeks)

References:

a. Mandatory readings: ; [Acemoglu \(2009\)](#) book Ch. 10; Lecture notes.

b. Optional readings: [Romer \(2018\)](#) Ch. 4.

7. Endogenous Growth Theory (1 weeks)

References:

a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 13; Lecture notes.

b. Optional readings: [Romer \(2018\)](#) Ch. 3.

Part 3. Investment and Consumption Theory (3.5 weeks)

1. Stochastic Dynamic Programming (1 week)

References:

a. Mandatory readings: Lecture notes.

b. Optional readings: [Adda and Cooper \(2003\)](#) book Ch. 2.

2. Investment (1 week)

References:

a. Mandatory readings: [Acemoglu \(2009\)](#) book Ch. 7.8; Lecture notes.

b. Optional readings: [Romer \(2018\)](#) book Ch. 9; [Hall and Jorgenson \(1967\)](#); [Hayashi \(1982\)](#); [Caballero \(1999\)](#); [Abel and Blanchard \(1983\)](#); [Fazzari et al. \(1987\)](#); [Gilchrist and Himmelberg \(1995\)](#); [Doms and Dunne \(1998\)](#); [Cummins et al. \(2006\)](#); [Philippon \(2009\)](#).

3. Consumption: the intertemporal savings decision under uncertainty (1 weeks)

1. The Canonical Consumption Model

References:

a. Mandatory readings: [Deaton et al. \(1992\)](#) book Ch. 2 and 3; Lecture notes.

b. Optional readings: [Adda and Cooper \(2003\)](#) book sections 6.1 - 6.2.2 and 6.3 - 6.3.2; [Romer \(2018\)](#) book sections 8.1, 8.2 & 8.4; [Deaton et al. \(1992\)](#) book Ch. 1.

2. Empirical Life Cycle / Permanent Income Hypothesis

References:

- a. Mandatory readings: ; Deaton et al. (1992) Ch. 4; Lecture notes.
- b. Optional readings: Romer (2018) book sections 8.1 - 8.3, Hall (1978), Flavin (1981), Campbell and Mankiw (1989), Shea (1995), Parker (1999), Souleles (1999), Hsieh (2003), Browning and Collado (2001).

3. Precautionary Savings

References:

- a. Mandatory readings: Deaton et al. (1992) Ch. 6; Lecture notes.
- b. Optional readings: Adda and Cooper (2003) book section 2.5, Ch. 3, sections 6.2.4, 6.3.5 and 6.3.6; Romer (2018) section 8.6, Kimball (1990), Gourinchas and Parker (2002).

4. Asset pricing, consumption CAPM and the equity premium puzzle (0.5 weeks)

References:

- a. Mandatory readings: Adda and Cooper (2003) book sections 6.2.3 and 6.3.3; Lecture notes.
- b. Optional readings: Romer (2018) book section 8.5; Epstein and Zin (1991); Jermann (1998).

Part 4. Business Cycle and Unemployment Theory (1.5 weeks)

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

- The model and its components
- Log-linearization
- Solution (Time permitting)

References:

- a. Mandatory readings: Romer (2018) Ch. 5; King and Rebelo (1999); Lecture notes.
- b. Optional readings: Blanchard and Kahn (1980); Ljungqvist and Sargent (2018) Ch. 4; Lucas Jr (2003); Baxter and King (1999); Dupraz et al. (2019); Kydland and Prescott (1982); Cogley and Nason (1995); Christiano and Eichenbaum (1992); Blanchard and Kahn (1980); Long Jr and Plosser (1983); King and Rebelo (1999); Hansen et al. (1992).

2. Unemployment (Time permitting)

References:

- a. Mandatory readings: Rogerson et al. (2005); Lecture notes.
- b. Optional readings: Pissarides (2000)

References

- Abel, Andrew B and Olivier J Blanchard**, “The present value of profits and cyclical movements in investment,” Technical Report, National Bureau of Economic Research 1983. [5](#)
- Acemoglu, Daron**, “Introduction to modern economic growth,” *Princeton NJ Princeton University Press* <https://press.princeton.edu/titles/8764.html>, 2009. [4](#), [5](#)
- Adda, Jerome and Russell Cooper**, *Dynamic economics: quantitative methods and applications*, MIT press, 2003. [5](#), [6](#)
- Aguiar, Mark and Gita Gopinath**, “Emerging market business cycles: The cycle is the trend,” *Journal of political Economy*, 2007, *115* (1), 69–102. [4](#)
- Baxter, Marianne and Robert G King**, “Measuring business cycles: approximate band-pass filters for economic time series,” *Review of economics and statistics*, 1999, *81* (4), 575–593. [6](#)
- Blanchard, Olivier**, “What do we know about macroeconomics that Fisher and Wicksell did not?,” *The Economist*, 2000, *148* (5), 571–601. [4](#)
- Blanchard, Olivier J**, “Debt, deficits, and finite horizons,” *Journal of political economy*, 1985, *93* (2), 223–247. [5](#)
- Blanchard, Olivier Jean and Charles M Kahn**, “The solution of linear difference models under rational expectations,” *Econometrica: Journal of the Econometric Society*, 1980, pp. 1305–1311. [6](#)
- Browning, Martin and M Dolores Collado**, “The response of expenditures to anticipated income changes: panel data estimates,” *American Economic Review*, 2001, *91* (3), 681–692. [6](#)
- Caballero, Ricardo J**, “Aggregate investment,” *Handbook of macroeconomics*, 1999, *1*, 813–862. [5](#)
- Campbell, John Y and N Gregory Mankiw**, “Consumption, income, and interest rates: Reinterpreting the time series evidence,” *NBER macroeconomics annual*, 1989, *4*, 185–216. [6](#)
- Chari, Varadarajan V and Patrick J Kehoe**, “Modern macroeconomics in practice: How theory is shaping policy,” *Journal of Economic Perspectives*, 2006, *20* (4), 3–28. [4](#)
- Christiano, Lawrence J and Martin Eichenbaum**, “Current real-business-cycle theories and aggregate labor-market fluctuations,” *The American Economic Review*, 1992, pp. 430–450. [6](#)
- Cogley, Timothy and James M Nason**, “Output dynamics in real-business-cycle models,” *The American Economic Review*, 1995, pp. 492–511. [6](#)
- Cummins, Jason G, Kevin A Hassett, and Stephen D Oliner**, “Investment behavior, observable expectations, and internal funds,” *American Economic Review*, 2006, *96* (3), 796–810. [5](#)
- Deaton, Angus et al.**, *Understanding consumption*, Oxford University Press, 1992. [5](#), [6](#)
- Diamond, Peter A**, “National debt in a neoclassical growth model,” *The American Economic Review*, 1965, *55* (5), 1126–1150. [5](#)
- Doms, Mark and Timothy Dunne**, “Capital adjustment patterns in manufacturing plants,” *Review of economic dynamics*, 1998, *1* (2), 409–429. [5](#)
- Dupraz, Stéphane, Emi Nakamura, and Jón Steinsson**, “A plucking model of business cycles,” Technical Report, National Bureau of Economic Research 2019. [6](#)

- Epstein, Larry G and Stanley E Zin**, “Substitution, risk aversion, and the temporal behavior of consumption and asset returns: An empirical analysis,” *Journal of political Economy*, 1991, 99 (2), 263–286. 6
- Fazzari, Steven, R Glenn Hubbard, and Bruce C Petersen**, “Financing constraints and corporate investment,” 1987. 5
- Flavin, Marjorie A**, “The adjustment of consumption to changing expectations about future income,” *Journal of political economy*, 1981, 89 (5), 974–1009. 6
- Gilchrist, Simon and Charles P Himmelberg**, “Evidence on the role of cash flow for investment,” *Journal of monetary Economics*, 1995, 36 (3), 541–572. 5
- Gourinchas, Pierre-Olivier and Jonathan A Parker**, “Consumption over the life cycle,” *Econometrica*, 2002, 70 (1), 47–89. 6
- Hall, Robert E**, “Stochastic implications of the life cycle-permanent income hypothesis: theory and evidence,” *Journal of political economy*, 1978, 86 (6), 971–987. 6
- **and Charles I Jones**, “Why do some countries produce so much more output per worker than others?,” *The quarterly journal of economics*, 1999, 114 (1), 83–116. 4
- **and Dale W Jorgenson**, “Tax policy and investment behavior,” *The American Economic Review*, 1967, 57 (3), 391–414. 5
- Hansen, Gary D, Randall Wright et al.**, “The labor market in real business cycle theory,” *Federal Reserve Bank of Minneapolis Quarterly Review*, 1992, 16 (2), 2–12. 6
- Hayashi, Fumio**, “Tobin’s marginal q and average q: A neoclassical interpretation,” *Econometrica: Journal of the Econometric Society*, 1982, pp. 213–224. 5
- Houthakker, Hendrik S**, “The Pareto distribution and the Cobb-Douglas production function in activity analysis,” *The Review of Economic Studies*, 1955, 23 (1), 27–31. 4
- Hsieh, Chang-Tai**, “Do consumers react to anticipated income changes? Evidence from the Alaska permanent fund,” *American Economic Review*, 2003, 93 (1), 397–405. 6
- **and Peter J Klenow**, “Misallocation and manufacturing TFP in China and India,” *The Quarterly journal of economics*, 2009, 124 (4), 1403–1448. 4
- Jermann, Urban J**, “Asset pricing in production economies,” *Journal of monetary Economics*, 1998, 41 (2), 257–275. 6
- Jones, Charles I**, “The facts of economic growth,” in “Handbook of macroeconomics,” Vol. 2, Elsevier, 2016, pp. 3–69. 4
- Jr, John B Long and Charles I Plosser**, “Real business cycles,” *Journal of political Economy*, 1983, 91 (1), 39–69. 6
- Jr, Robert E Lucas**, “Macroeconomic priorities,” *American economic review*, 2003, 93 (1), 1–14. 6
- Kimball, Miles S**, “Precautionary Saving in the Small and in the Large,” *Econometrica: Journal of the Econometric Society*, 1990, pp. 53–73. 6
- King, Robert G and Sergio T Rebelo**, “Resuscitating real business cycles,” *Handbook of macroeconomics*, 1999, 1, 927–1007. 6
- Kydland, Finn E and Edward C Prescott**, “Time to build and aggregate fluctuations,” *Econometrica: Journal of the Econometric Society*, 1982, pp. 1345–1370. 6

- Lagos, Ricardo**, “A model of TFP,” *The Review of Economic Studies*, 2006, 73 (4), 983–1007. 4
- Laibson, David**, “Golden eggs and hyperbolic discounting,” *The Quarterly Journal of Economics*, 1997, 112 (2), 443–478. 5
- Ljungqvist, Lars and Thomas J Sargent**, “Recursive Macroeconomic Theory (MIT Press),” *Cambridge, MA*, 2018. 6
- Mankiw, N Gregory**, “The macroeconomist as scientist and engineer,” *Journal of Economic Perspectives*, 2006, 20 (4), 29–46. 4
- , **David Romer, and David N Weil**, “A contribution to the empirics of economic growth,” *The quarterly journal of economics*, 1992, 107 (2), 407–437. 4
- Parker, Jonathan A**, “The reaction of household consumption to predictable changes in social security taxes,” *American Economic Review*, 1999, 89 (4), 959–973. 6
- Philippon, Thomas**, “The bond market’s q ,” *The Quarterly Journal of Economics*, 2009, 124 (3), 1011–1056. 5
- Pissarides, Christopher A**, *Equilibrium unemployment theory*, MIT press, 2000. 6
- Prescott, Edward C**, “Robert M. Solow’s neoclassical growth model: An influential contribution to economics,” *The Scandinavian Journal of Economics*, 1988, 90 (1), 7–12. 4
- Rogerson, Richard, Robert Shimer, and Randall Wright**, “Search-theoretic models of the labor market: A survey,” *Journal of economic literature*, 2005, 43 (4), 959–988. 6
- Romer, David**, *Advanced macroeconomics*, Mcgraw-hill, 2018. 4, 5, 6
- Shea, John**, “Union contracts and the life-cycle/permanent-income hypothesis,” *The American Economic Review*, 1995, pp. 186–200. 6
- Souleles, Nicholas S**, “The response of household consumption to income tax refunds,” *American Economic Review*, 1999, 89 (4), 947–958. 6
- Strotz, Robert Henry**, “Myopia and inconsistency in dynamic utility maximization,” *The review of economic studies*, 1955, 23 (3), 165–180. 5
- Tirole, Jean**, “Asset bubbles and overlapping generations,” *Econometrica: Journal of the Econometric Society*, 1985, pp. 1499–1528. 5
- Weil, Philippe**, “Overlapping families of infinitely-lived agents,” *Journal of public economics*, 1989, 38 (2), 183–198. 5
- Woodford, Michael**, “Revolution and evolution in twentieth-century macroeconomics,” 1999. 4