Duke University
Department of Economics
Econ. 602-01: Macroeconomic Theory

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This class provides a broad perspective on the state of macroeconomics and builds the tools for students to undertake their own research. There are two textbooks:

- Barro R. J. and Sala i Martin X., Economic Growth, MIT Press;
- Romer D., Advanced Macroeconomics, Mc Graw Hill.

Although they partially overlap, they should be considered complementary. Students are responsible for the chapters indicated below. In addition, they are expected to read some of the papers listed below. Since the list is rather long, I prefer students to exercise their own judgment in choosing the papers they wish to read. However, references in class and in the textbooks will indicate clearly which papers are "classic" and must be read. Other books that are useful for this course are:

- Stokey N. and Lucas R., Recursive Methods in Economic Dynamics, Harvard University Press.
- Ljungqvist L. and Sargent T., Recursive Macroeconomic Theory, MIT University Press.

The final grade will be a weighted average of the grades on weekly homework (20%), a midterm exam (30%), and a final exam (50%).

1. **Overview**
   (a) Blanchard O. J., What do we know about macroeconomics that Fisher and Wicksell did not?, *Quarterly Journal of Economics*, 2000, CXV:1375-1409
   (b) Woodford M., Revolution and evolution in twentieth-century macroeconomics, unpublished manuscript, Princeton University (pdf document available on his web page at http://www.econ.princeton.edu)
2. **A quick critical review of the AD-AS model**

(a) Romer, Ch. 5

(b) Friedman M., The role of monetary policy, *American Economic Review*, 1968, 58:1-17

(c) Phelps E. S., Money-wage dynamics and labor market equilibrium, *Journal of Political Economy*, 1968, 76:678-711

(d) Tobin J., Inflation and unemployment, *American Economic Review*, 1972, 62:1-18

3. **The Rational Expectations Hypothesis (REH) and some early applications**

(a) Romer, Ch. 5

(b) Begg D. K. H., *The Rational Expectations Revolution in Macroeconomics*, Ch. 3

(c) Sargent T. J. and Wallace N., The stability of money and growth with perfect foresight, *Econometrica*, 1973, 41:1043-1048

(d) Blanchard O. J. and Kahn C., The solution of linear difference models under tational expectations, *Econometrica*, 1981, 48:1305-1311

(e) Buiter W. H., Saddlepoint problems in continuous time rational expectations models: A general method and some macroeconomic examples, *Econometrica*, 1984, 52:665-680

(f) Dornbusch R., Expectations and exchange rates dynamics, *Journal of Political Economy*, 1977, 84:1161-1176

(g) Fleming J. M., Domestic financial policies under fixed and under floating exchange rates, *IMF Staff Papers*, 1962, 9:369-379

(h) Frenkel J. A. and Razin A., The Mundell-Fleming Model a quarter century later: A unified exposition, *IMF Staff Papers*, 1987, 34:567-620

(i) Mundell R. A., Capital mobility and stabilization policy under fixed and flexible exchange rates, *Canadian Journal of Economics*, 1963, 29:475-485

4. **The Workhorse of Modern Macro: The Neoclassical Growth Model**

(a) Romer, Ch. 1-2-3

(b) Barro-Sala i Martin, Ch. 1-2-3-4

(c) Diamond P., National debt in a neoclassical growth model, *American Economic Review*, 1965, 55:1126-1150

(d) Barro R., Are government bonds net wealth?, *Journal of Political Economy*, 1974, 82:1095-1117

(e) Blanchard O. J., Debt, deficits and finite horizons, *Journal of Political Economy*, 1985, 93:223-247

(f) Backus D., P. Kehoe and T. Kehoe, 1992, In Search of Scale Effects in Trade and Growth, *Journal of Economic Theory*, 57:377-409

(g) Barro R. J., 1990, Government Spending in a Simple Model of Endogenous Growth, *Journal of Political Economy*, 98:S103-S125

(h) Jones L. and Manuelli R., 1990, A Convex Model of Optimal Equilibrium Growth, *Journal of Political Economy*, 98:1008-1037

(i) Rebelo S., 1991, Long Run Policy Analysis and Long Run Growth, *Journal of Political Economy*, 99:500-521

(j) Romer P., 1986, Increasing Returns and Long-Run Growth, *Journal of Political Economy*, 94:1002-1037

5. **An important application: Real Business-Cycle (RBC) theory**

(a) Romer, Ch. 4

(b) Prescott E., Theory ahead of business-cycle measurement, *Carnegie Rochester Conference Series on Public Policy*, 1986, 25:11-44

(c) Kydland F. and Prescott E., Time to build and aggregate fluctuations, *Econometrica*, 1982, 50:1345-1370

(d) Campbell J., Inspecting the mechanism: An analytical approach to the stochastic growth model, *Journal of Monetary Economics*, 1994, 33:463-506

If time allows we might also cover some of these topics:

1. **Details on investment and consumption**

(a) Romer, Ch. 7-8

(b) Friedman M., A theory of the consumption function, Ch. 2-3

(c) Hall R., Stochastic implications of the Life Cycle Permanent Income Hypothesis: Theory and evidence, *Journal of Political Economy*, 1978, 86:971-987

(d) Modigliani F., Life cycle, individual thrift and the wealth of nations, *American Economic Review*, 1986, 76:297-338

2. **Unemployment**

(a) Romer, Ch. 9

(b) Shapiro C. and Stiglitz J., Equilibrium unemployment as a worker discipline device, *American Economic Review*, 1984, 74:433-444

3. **Money and inflation**

(a) Romer, Ch. 10

(b) Baumol W., The transactions demand for cash, *Quarterly Journal of Economics*, 1952, 67:545-556

(c) Tobin J., The interest elasticity of the transactions demand for cash, *Review of Economics and Statistics*, 1956, 38:241-247

(d) Sidrauski M., Rational choice and patterns of growth in a monetary economy, *American Economic Review*, 1967, 57:534-544

(e) Romer D., A simple general equilibrium version of the Baumol-Tobin model, *Quarterly Journal of Economics*, 1986, 4:663-686