

PhD Macro – Econ 706 part 1

Spring 2020

Instructor: Andrea Lanteri

Admin info

Lectures: Mon-Wed 10:05 – 11:20 am in Physics 130

Office hours: Fri 1:30 – 2:30 pm in Social Sciences 233

Contact: andrea.lanteri@duke.edu

TAs: Sumin Chun (sumin.chun@duke.edu) and Eun-Seok (Ian) Lee (eunseok.lee@duke.edu)

TA sessions: Mon 6:15-7:05 in Social Sciences 109

TAs' office hours: TBA

Exam: 2/26 in class

Course Description and Rules

In this class, we will cover the basics of three large areas in macroeconomics: search models of the labor market; models with heterogeneous agents; and optimal fiscal policy. There will be weekly assignments which involve both pencil-and-paper exercises and a few computational exercises. The purpose of the computational assignments is to bring students closer to the tools actually used to do research in macro. Given that this is a first-year class, the assignments put more emphasis on tools that are highly applicable also to other fields in economics research (such as dynamic programming). Collaboration in groups of up to three people is highly encouraged, and it is OK to hand in a single code for the whole group for the computational exercises. As far as the pencil-and-paper exercises are concerned, each student should hand in an individual homework. Overall, assignments will account for 10% of the final evaluation. The final written exam will involve three questions, one for each part of the class.

Topics

Each item corresponds to approximately a week of lectures.

Part 1: Search & matching models of unemployment

- 1) Key facts about labor markets over the business cycle. The basic S&M framework.
Pissarides (2000) Ch. 1
- 2) Endogenous job destruction. The Shimer Puzzle and its ``fixes”.
Mortensen and Pissarides (1994), Pissarides (2000) Ch.2, Shimer (2005)

Part 2: Macro with heterogeneous agents

- 3) The standard incomplete-markets model and the wealth distribution. Business cycles with heterogeneous households.
LS Ch. 16-17, Aiyagari (1994), Krusell and Smith (1998)
- 4) Endogenously incomplete markets. Recursive contracts and international-macro application.
LS Ch. 19, Marcet and Marimon (2019), Kehoe and Perri (2002)
- 5) Firm dynamics in general equilibrium.
Hopenhayn and Rogerson (1993)

Part 3: Fiscal policy in dynamic general equilibrium models

- 6) Ricardian Equivalence. Ramsey equilibrium. Optimal fiscal policy in the neoclassical growth model.
LS Ch. 10-15
- 7) The time inconsistency of Ramsey plans. Markov-Perfect Equilibrium and time-consistent policies.
Kydland and Prescott (1977), Klein et al. (2008)

Readings

Textbook chapters:

- 1) Pissarides (2000), Equilibrium Unemployment Theory, 2nd edition, Ch. 1-2
- 2) Ljungqvist and Sargent (LS) (2004), Recursive Macroeconomic Theory, Ch.10-15-16-17-19 (in the 2nd edition)

Articles:

- 1) Mortensen and Pissarides (1994), Job Creation and Job Destruction in the Theory of Unemployment, ReStud
- 2) Shimer (2005), The Cyclical Behavior of Unemployment and Vacancies, AER
- 3) Aiyagari (1994), Uninsurable Idiosyncratic Risk and Aggregate Saving, QJE
- 4) Krusell and Smith (1998), Income and Wealth Heterogeneity in the Macroeconomy, JPE
- 5) Marcet and Marimon (2019), Recursive Contracts, Ecta
- 6) Kehoe and Perri (2002), International Business Cycles with Endogenously Incomplete Markets, Ecta
- 7) Hopenhayn and Rogerson (1993), Job Turnover and Policy Evaluation: A General Equilibrium Analysis, JPE
- 8) Chari and Kehoe (1999), Optimal Fiscal and Monetary Policy, Handbook of Macroeconomics
- 9) Kydland and Prescott (1977), Rules Rather than Discretion: The Inconsistency of Optimal Plans, JPE
- 10) Klein, Krusell and Ríos-Rull (2008), Time-Consistent Public Policy, ReStud
- 11) Sargent (2012), Nobel Lecture: United States Then, Europe Now, JPE