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Macroeconomic Theory Course Outline

Textbook readings are mainly from

David Romer, *Advanced Macroeconomics*, 2nd edition, McGraw-Hill, 2001 (*'Romer'*)
Robert Barro and Xavier Sala-i-Martin, *Economic Growth*, McGraw-Hill, 2nd edition,
MIT Press 2004 (*'Barro-Martin'*)

In addition there are journal article readings which are available as pdf files at the course website.

Meetings are always on Tuesday, Wednesday and Thursday from 14:15 to 16:30+.
Room locations for each class meeting appear in the schedule supplied separately. 2/3 of the Macro I and II grades will be based on the final examination, 1/3 on the labs. You must turn in lab assignments on time in order to get any credit.

Part I

(5 Points, 30 March – 29 April 2004)

Brief Review of Tools for Manipulating Dynamic Models in Discrete Time (lag-lead algebra, difference equations, rational expectations solution concepts)

Hibbs Lecture Notes

Barebones Dynamic General Macroeconomic Equilibrium

Hibbs Lecture Notes

Lab 1 Assignment (Hibbs)

Neoclassical Growth with exogenous saving (Solow-Swan)

Romer, chapter 1

Barro-Martin, Introduction and chapter 1

Neoclassical Growth with endogenous saving (Ramsey-Cass-Koopmans)

Romer, chapter 2

Barro-Martin, chapter 2

The Overlapping Generations Model

Romer, chapter 2B

Barro-Martin, chapter 3.8

Endogenous Growth Theory (lecture by Ola Olsson)

Romer, chapter 3A

Barro-Martin, chapter 6

Romer, Paul (1994), "The Origins of Endogenous Growth Theory", *Journal of Economic Perspectives* 8(1): 3-22.

C. Jones, "Growth: With or Without Scale Effects?", *American Economic Review*, ER Papers and Proceedings 89(2), May 1999, 139-145.

Lab 2 Assignment (Hibbs and Håkan Locking)**Empirical Analysis of the Wealth and Poverty of Economies**

Romer, chapter 3B

Barro-Martin, chapter 12

R. Hall and C. Jones, "Why Do Some Countries Produce So Much More Output per Worker than Others" *Quarterly Journal of Economics* 114, 1999, 83-116

Consumption and Saving: The Life-Cycle, Permanent Income Hypothesis

Romer, chapter 7, 11.1-11.3

R. Hall, "Stochastic Implications of the Life Cycle Permanent Income Hypothesis" *Journal of Political Economy*, 1978, 971-87

Consumption, Habit Formation, Precautionary Saving and Ricardian Equivalence

R. Alessie and A. Lusardi, "Consumption, Saving and Habit Formation" *Economics Letters*, 55, 1997, 103-108

C.D. Carroll, J. Overland and D. Weil, "Saving and Growth with Habit Formation". *American Economic Review*, 90, 2000, 341-355

O. Blanchard and N.G. Mankiw, "Consumption: Beyond Certainty Equivalence" *American Economic Review*, May 1988, 173-77

D. Aschauer "Fiscal Policy and Aggregate Demand" *American Economic Review*, March 1985, 117-27

Lab 3 Assignment (Hibbs and Håkan Locking)**Consumption in the Open Economy** (lecture by Johan Adler)

S. Sheffrin and W. Woo "Present value tests of an intertemporal model of the current account" *Journal of International Economics*, 1990, 237-53.

Final Exam for Part I

Thursday, 29 April, Victoriagatan 30, 14:30-20:30

Part II

(5 Points, 4 May – 4 June 2004)

Investment Statics and the Cost of Capital

Romer, chapter 8.1

D. Jorgenson, “Capital Theory and Investment” *American Economic Review*, May 1963 (Papers and Proceedings), 391-414

Adjustment Costs and Investment Dynamics

Romer, chapter 8.2-8.8

R. Caballero “Aggregate Investment” in John B. Taylor and Michael Woodford, (eds.) *Handbook of Macroeconomics.*, Volume 1B, Elsevier, 1999, pp.813-862 (NBER WP6264)

Rational Expectations and Output-Inflation Trade-offs (Aggregate Supply)

Romer chapters 5.4-5.6, 6A

R.E. Lucas, “Some International Evidence on Output-Inflation Trade-offs” *American Economic Review*, 63, 1973, 326-334 and correction *American Economic Review*, 66, 1976, p.985

S. Fischer, “Long Term Contracts, Rational Expectations and the Optimum Money Supply Rule” *Journal of Political Economy*, 85, 1977, 191-205 or J. Taylor, “Staggered Wage Setting in a Macro Model”, *American Economic Review*, May 1979, 108-113

L. Ball, N.G. Mankiw and D. Romer, “The New Keynesian Economics of the Output-Inflation Tradeoff” *Brookings Papers on Economic Activity 1988:1*, 1-65

Lab 1 Assignment (Håkan Locking)

Unemployment and the Labor Market I: Efficiency Wage Models and Implicit Contract Theory (lecture by Per Lundborg)

Romer, chapter 9.1, 9.2, 9.3, 9.4, 9.5,

N. Gottfries, “Insiders, Outsiders, and Nominal Wage Contracts” *Journal of Political Economy*, April 1992, 252-270

L. Summers, , “Relative Wages, Efficiency Wages and Keynesian Unemployment” *American Economic Review*, May 1988, 383-88.

Unemployment and the Labor Market II: Wage Formation Institutions and Macroeconomic Policy (lecture by Per Lundborg)

Alison Booth, *The Economics of the Trade Union*, Cambridge University Press. 1995, Chapters 4,5, 8.

A. Oswald, “The Economic Theory of Trade Unions” *Scandinavian Journal of Economics*, Vol 87, 1985.

L. Calmfors, "Centralisation of Wage Bargaining and Macroeconomic Performance- A Survey", *OECD Economic Studies* No 21, 1993.

Unemployment and the Labor Market III: Insider/Outsider Models, Hysteresis, Search and Matching Models (lecture by Per Lundborg)

Romer chapters 9.6, 9.7, 9.8, 9.9

Lab 2 Assignment (Per Lundborg)

Monetary Policy and: Optimal Stabilization Policy (lecture by Håkan Locking)

Romer, chapter 10

R. Barro and D. Gordon, "A Positive Theory of Monetary Policy in a Natural Rate Model" *Journal of Political Economy*, 1983, 589-610.

S. Fischer and L. Summers, "Should Governments Learn to Live with Inflation?" *American Economic Review*, May 1989, 382-87.

C. Walsh, "Optimal contracts for central bankers" *American Economic Review* 85, March 1995, 150-67

Monetary policy, Taylor rules and Inflation Targeting (lecture by Håkan Locking)

Romer chapter 10

R. Clarida, J. Gali and M. Gertler, "The Science of Monetary Policy: A New Keynesian Perspective" *Journal of Economic Literature*, Vol. 37, No. 4. (Dec., 1999), pp. 1661-1707

L. E.O Svensson, "Inflation targeting: Should it be modeled as an instrument rule or a targeting rule" *European Economic Review* 46, 2002, 771-780.

Imperfect Competition, Multiple Unions and the Effects of Monetary Policy

D. Soskice and T. Iversen, "The non neutrality of monetary policy with large price or wage setters", *Quarterly Journal of Economics*, 2000, 115: 265-284.

G. Bratsiotis and C. Martin, , "Policy Targets and Unemployment in Imperfectly Competitive Economies", *Scandinavian Journal of Economics*, 1999, 101(2), 241-256.

N. Acocella, G. DiBartolomeo and D. Hibbs, "Labor Markets and the Effects of Monetary Policy" WP 2004.

Lab 3 Assignment (Håkan Locking)

Final Exam for Part II

Friday, 4 June, Victoriagatan 30, 14:30-20:30