University of Kansas
Department of Economics

Economics 810
Macroeconomics 1

Spring 2010
Professor Keating

Office: 226-B Summerfield Hall
Phone: 864-2837
Office Hours: Mondays: 3:15-5:15; Wednesdays: 10:45 to 11:45 and 3:15 to 4:15;
Otherwise I am usually available by appointment.

Grading: Grades are determined by performance on homework (20%), one midterm exam (35% each) and a final exam (45%). The midterm is an in-class exam on Wednesday, March 24. The comprehensive final is on Tuesday, May 11 from 7:30 am to 10 am in this same class room.


Each text has unique strengths. Romer provides a good organization of the material and often provides a nice intuitive explanation of various economic models. The texts by Barro and Sala-i-Martin and by Blanchard and Fischer provide deeper technical knowledge that one must acquire if one wants to read literature on the research frontier. (I did not order *Recursive Macroeconomic Theory* by Lars Ljungqvist and Thomas J. Sargent, but this book is even more technical.)

There are a few suggested readings from *Interest and Prices* by Michael Woodford and from *Monetary Theory and Policy* (2nd Edition) by Carl Walsh, but these texts have not been ordered. Woodford’s text is technically sophisticated and is particularly focused on recent research into monetary policy rules using a New-Keynesian framework. Walsh’s text emphasizes all types of monetary issues.

Texts are referenced below by the last names of authors. The course will probably only cover closed-economy macro topics. If you are interested in open-economy macroeconomic questions an excellent text is *Foundations of International Macroeconomics* by Maurice Obstfeld and Kenneth Rogoff.

While this syllabus includes many important articles, it contains more readings than one is able to digest in a single semester. This lengthy reading list is designed to provide you with additional resources in case you want a deeper understanding of some topics, now or sometime in the future. If you want to develop an expertise in the area of macroeconomics, you will eventually need to become familiar with most of these articles. I will let you know which articles are essential for this course.


There are many references to *National Bureau of Economic Research* working papers (denoted as NBER WP). Since the Economics Department subscribes to this series you can download these papers for yourself or use the department’s hard copy (if you can find it) to make a copy for yourself. The syllabus references other working papers, some which come from other universities and some from the Federal...
Reserve System. Most items from the 12 Federal Reserve Banks and from the Board of Governors of the Federal Reserve System may be ordered free of charge or downloaded from the Web.

See the KU Department of Economics Web page http://www.ku.edu/~econ/ or my Web page for easy connections to various other sources of information from the Web. Also, ECONLIT is a useful tool for tracking down papers, mostly ones that are published or in the collection of NBER Working Papers. Other working papers archives can also be found on the KU Web page. I will use Blackboard and my Web page, http://www.people.ku.edu/~jkeating/, to distribute some course information (e.g. the syllabus, homework questions, homework solutions, etc.).

Homework will be assigned with some regularity. Questions will sometimes be drawn from texts and sometimes be my own creation.

Abbreviations:

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<thead>
<tr>
<th>Abbreviation</th>
<th>Journal Name</th>
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<tr>
<td>ECMT</td>
<td>Econometrica</td>
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<tr>
<td>JMCE</td>
<td>Journal of Money, Credit, and Banking</td>
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<tr>
<td>AER</td>
<td>American Economic Review</td>
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<tr>
<td>QJE</td>
<td>Quarterly Journal of Economics</td>
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<tr>
<td>RESTAT</td>
<td>Review of Economics and Statistics</td>
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<tr>
<td>CRCSC</td>
<td>Carnegie-Rochester Conference Series</td>
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<tr>
<td>JEL</td>
<td>Journal of Economic Literature</td>
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<tr>
<td>JME</td>
<td>Journal of Monetary Economics</td>
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<tr>
<td>JPE</td>
<td>Journal of Political Economy</td>
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<tr>
<td>JFE</td>
<td>Journal of Financial Economics</td>
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<tr>
<td>EER</td>
<td>European Economic Review</td>
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<td>JEDC</td>
<td>Journal of Economic Dynamics and Control</td>
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<tr>
<td>RESTUD</td>
<td>Review of Economic Studies</td>
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Course Outline

Foundations of Macroeconomic Analysis

Blanchard, O. "What Do We Know About Macroeconomics that Fisher and Wicksell Did Not?" QJE 115, no. 4 (November 2000): 1375-1410.


Blanchard and Fischer, Chapter 1

Walsh, Chapter 1

Woodford, Chapter 1


Stock J. and M. Watson “Business cycle fluctuations in U.S. macroeconomic time series” Chapter 1 in Handbook of Macroeconomics (also available as an NBER WP)

Stock, James & Mark Watson “Has the Business Cycle Changed? Evidence and Implications” in Monetary Policy and Uncertainty, Kansas City Federal Reserve Bank’s 2003 Symposium


Backus D., P. Kehoe “International evidence on the historical properties of business cycles” AER 1992

Feldstein M. and C. Horioka “Domestic savings and international capital flows” Economic Journal 1980

The Solow Growth Model

Romer, Chapter 1
Barro and Sala-i-Martin, sections 1.1,1.2
Solow R. “A contribution to the theory of economic growth” QJE 1956
Solow R. “Technical change and the aggregate production function” RESTAT 1957
Swan T.W. “Economic growth and capital accumulation” Economic Record, 1956
Lucas R. “Why capital doesn’t flow from rich to poor countries?” AER 1990

Empirical Evidence on Growth

Barro R. “Notes on growth accounting” NBER WP
Barro and Sala-i-Martin, Chapters 10,11,12
Mankiw N., D. Romer and D. Weil “A contribution to the empirics of economic growth” QJE 1992
NBER Macroeconomics Annual, 2001
Fischer S. “The role of macroeconomic factors in growth” JME 1993
Durlauf S. and D. Quah “The new empirics of economic growth” Handbook of Macroeconomics (also available as an NBER WP)

Two-Period Dynamic Structures (the Overlapping Generations Model)

Romer: Sections 2.8 and 2.9
Barro & Sala-i-martin: Appendix to Chapter 3
Blanchard & Fischer: Chapter 3

Infinite Horizon Models

Barro and Sala-i-Martin, Chapter 2, Appendix on Mathematical Methods, Chapter 3
Romer, Chapter 2 Part A
Blanchard and Fischer, Chapter 2
Sargent T. Dynamic Macroeconomic Theory, Chapter 1
Burnside C. notes on Dynamic Optimization, Chapter 2,3,4

**Endogenous Growth Theory**

Romer, Chapter 3
Barro and Sala-i-Martin, Chapter 1.3,4,5
Romer P. “Increasing returns and long-run growth” JPE 1986
Romer P. “Endogenous technological change” JPE 1990
Lucas R. “On the mechanics of economic development” JME 1988
Rebelo S. “Long-run policy analysis and long-run growth” JPE 1991
Galor O. and O. Moav “Natural selection and the origin of economic growth” QJE 2002
Jones C. *Introduction to Economic Growth*, 2nd Ed, 2002, McGraw Hill, Chapters 4,5,6,7,8

**Real Business Cycle Theory**

Romer, Chapter 4
Blanchard and Fischer, pages 277-283 and Chapter 7
King R. and S. Rebelo “Resuscitating real business cycles” *Handbook of Macroeconomics* (also available as an NBER WP)
Cochrane J. “Solving real business cycle models by solving systems of first order conditions” U. of Chicago lecture notes (1993)
Prescott E. "Theory ahead of business cycle measurement," CRCS, 1986
*J. of Economic Perspectives*, Summer 1989, Articles On Real Business Cycle Theory
*Frontiers of Business Cycle Research*, ed T. Cooley, Chapters 1,2,3
Kydland, F. and E. Prescott "Time to Build and Aggregate Fluctuations," ECMT 1982
Evidence on RBC Models

Sims, C. "Macroeconomics and Reality," ECMT 1980
Altonji J. "Intertemporal substitution in labor supply: Evidence from micro data" JPE 1986
Keating J. "Postwar US Business Cycles in Models with Long-Run Monetary Neutrality" working paper
Lawrence J. Christiano, Martin Eichenbaum and Charles L. Evans, “Monetary policy shocks: What have we learned and to what end?” Chapter 2 in Handbook of Macroeconomics, 1999, vol 1A, 65-148

Solving Models under Rational Expectations

Blanchard and Fischer, pages 356-361, Section 5.1 and the Appendix to Chapter 5
Chapter 3: Macroeconomics Lecture Notes for a Masters Course, Gregor Smith, unpublished, 2000
McCallum B. Monetary Economics: Theory and Policy, Chapter 8
Farmer R., The Macroeconomics of Self-Fulfilling Prophecies, Chapters 2 and 3
Blanchard, O. and C. Kahn, "The Solution of Linear Difference Models under Rational Expectations" ECMT 1980
McCallum B. “Role of the Minimal State Variable Criterion in Rational Expectations Models” International Tax and Public Finance; Nov. 1999, pages 621-39 (also NBER WP)
McCallum, B "Solutions to Linear Rational Expectations Models: A Compact Exposition"
Economics Letters; 61(2), November 1998, pages 143-47. (also NBER WP)
Soderlind P. “Solution and Estimation of Rational Expectations Macro models with Optimal Policy”
EER 1999, 813-823
Sargent T. Macroeconomic Theory, Chapters 9 and 11
Burnside C. notes on Dynamic Optimization, Chapter 1

Imperfect Information Business Cycle Models (New Classical Macroeconomics)

Romer, Chapter 6 Section A
Muth, J.F. “Rational expectations and the theory of price movements” ECMT 1961
McCallum B. "Rational Expectations and Macroeconomic Stabilization Policy," JMCB, 1980

Evidence on Imperfect Information Models

Mishkin R. A Rational Expectations Approach to Macroeconomics, NBER, 1983
Gray J. and D. Spencer "Price Prediction Errors and Real Activity: A Reassessment", Economic Inquiry, 1990
Keating "Identifying VAR models under rational expectations," JME, 1990

Monetarism

Friedman M. "The role of monetary policy," AER, 1968
Williamson S. & R. Wright “New Monetarist Economics” 2008

**Empirical Evidence on Price Stickiness**

Carlton D. "The rigidity of prices," AER 1986
Kashyap A. "Sticky Prices: New Evidence from Retail Catalogs" QJE, 1995
Rotemberg J. "Prices, Output, and Hours: An Empirical Analysis Based on a Sticky Price Model", JME 1996
Keating J. "Is Sticky Price Adjustment Important for Output Fluctuations?" KU working paper

**Models of Sticky Price Adjustment**

Romer, Chapter 5, Chapter 6 Parts B and C
Woodford, Chapter 3
Blanchard and Fischer, Chapter 8
Walsh: Chapters 2 and 5
Mankiw G. & R. Reis “Sticky Information versus Sticky Prices: A Proposal to Replace the New-Keynesian Phillips Curve” QJE 2002 (and also NBER WP 8290)
Taylor J. "Aggregate dynamics and staggered contracts," JPE, 1980
*J. of Economic Perspectives*, Winter 1993, Articles On New-Keynesian Economics
Mankiw N. “Small menu costs and large business cycles: A macroeconomic model of monopoly” QJE 1985
Blanchard O. and N. Kiyotaki “Monopolistic competition and the effects of aggregate demand” AER 1987
Caplin A. and D. Spulber “Menus costs and the neutrality of money” QJE 1991
Caplin A. and J. Leahy “State-dependent pricing and the dynamics of money and output” QJE, 1991
Ball L. and D. Romer “Real rigidities and the non-neutrality of money” *Review of Econ. Studies* 1990
Gordon R. “What is new-Keynesian economics?" *J. of Economic Literature* 1990
Carlton D. “The theory and the facts of how markets clear: Is industrial organization valuable
for understanding macroeconomics?” Chapter 15 in Handbook of Industrial Organization, Vol 1
Kerr W. and R. King "Limits on interest rate rules in the IS model" Richmond FRB Review 1996
Ohanian L., A. Stockman and L. Kilian "The effects of real and monetary shocks in a business cycle
model with some sticky prices," JMCB. 1995
Farmer R. "Nominal price stickiness as a rational expectations equilibrium," JEDC 1992
Rotemberg J. and M. Woodford "Dynamic general equilibrium models with imperfectly competitive
Rotemberg J.J., M. Woodford “The cyclical behavior of prices and costs” Chapter 16 Handbook
of Macroeconomics
Yun T "Nominal Price Rigidity, Money Supply Endogeneity, and Business Cycles," JME, 1996,
Bernanke B., M. Gentler and S. Gilchrist “The financial accelerator in a quantitative business
cycle framework” Handbook of Macroeconomics (also available as an NBER WP)
Benabou R. “Search, Price Setting and Inflation” RESTUD, 1988
Golosov, M., and R. Lucas "Menu Costs and Phillips Curves" JPE, 2007 (also NBER WP#10187)
Christiano L. & M. Eichenbaum & C.,”Nominal Rigidities and the Dynamic Effects of a Shock to

Models of Aggregate Labor Markets

Shimer R., R. Rogerson & R. Wright “Search theoretic models of the labor market: A survey” JEL, 2005
Romer, Chapter 10
Blanchard & Fischer Sections 9.1, 9.2, 9.3 and 9.4
Shapiro C. and J. Stiglitz “Equilibrium unemployment as a worker discipline device” AER 1984
Lilien D. “Structural shifts and cyclical unemployment” JPE 1982
Abraham K. and L. Katz “Cyclical unemployment: Sectoral shifts or aggregate disturbances” JPE 1986
Fitzgerald T. “An Introduction to the Search Theory of Unemployment” Cleveland Fed Review
D.T. Mortensen, C.A. Pissarides “New developments in models of search in the labor market” Chapter
39, Handbook of Labor Economics, Volume 3B.
Hall, R.E. “Labor-market frictions and employment fluctuations” Chapter 17 Handbook of
Macroeconomics
C.A. Pissarides, Equilibrium Unemployment Theory, 2nd Ed, 2000, MIT Press
Shimer, R. Labor Markets and Business Cycles, Princeton, 2010

Is the Phillips Curve Vertical in the Long Run?

Curve” Brookings Papers on Economic Activity, (2000),
Economic Activity,(1996)