

Macroeconomics, 5th Module, Academic Year 2012-2013
Recursive Macro

Instructor: Andrei Shevchenko
Contact: Office: TBA, E-Mail: shevchen@msu.edu
Office Hours: TBA and by appointment
Class meets: TBA
TAs: TBA

Goals: The goal is to expose students to basic macroeconomics models and techniques of the microfoundations of macroeconomics and apply these models to a variety of issues such as growth, business cycles, unemployment, and money. By the end of the course students are supposed to develop a number of skills, including how to think rigorously within the confines of a formal economic model; how to assess alternative economic models and make judgments as to which is most appropriate for a given application.

Requirements

Exams: There will be one final exam.

Problem Sets: There will be problem sets handed out almost every week. The problem sets account for 20% of the final grade and they are an integral part of the course. Studying and understanding them is the best way to prepare for the exam.

Reading Assignments:

Main textbooks:

Blanchard, O. and S. Fisher, *Lectures on Macroeconomics*, MIT Press, Cambridge, MA, 1989.

Ljungqvist L. and T. Sargent. *Recursive Macroeconomic Theory*, MIT Press, Cambridge, MA, 2000.

Romer, D, *Advanced Macroeconomics*, McGraw Hill, New York, 1996.

Stokey, N., R. Lucas and E. Prescott, *Recursive Methods in Economic Dynamics*, Harvard University Press, Cambridge, MA, 1989.

The following are some books that you may find useful to consult as references:

Barro, R., *Modern Business Cycle Theory*, Harvard University Press, Cambridge MA, 1989.

Cooley, T., *Frontiers of Business Cycle Research*, Princeton University Press, Princeton NJ, 1995.

Farmer R. *The Macroeconomics of Self-Fulfilling Prophecies*, MIT Press, Cambridge MA.

Lucas, R., *Studies in Business Cycle Theory*, MIT Press, Cambridge MA, 1981.
McCandless Jr. G. and N. Wallace, *Introduction to Dynamic Macroeconomic Theory. An Overlapping Generations Approach*. Harvard University Press, Cambridge, MA, 1995.
Sargent, T., *Macroeconomic Theory*, Academic Press, New York, 1979.
Sargent, T., *Dynamic Macroeconomic Theory*, Harvard University Press, Cambridge, MA, 1987.

Sometimes I will hand out supplementary notes and refer to papers that you have to read. These are some of the papers:

1. Lucas R., Asset Prices in an Exchange Economy, *Econometrica*, Vol. 46, No. 6, 1978, pp. 1429-1445.
2. Grossman S.J. and Shiller R.J., The Determinants of the Variability of Stock Market Prices, *American Economic Review*, Vol. 71, No. 2, Papers and Proceedings of the Ninety-Third Annual Meeting of the AEA, 1981, pp. 222-227.
3. Mehra R. and Prescott E.C., The Equity Premium: A Puzzle, *Journal of Monetary Economics*, 15, 1985, pp 145-161.
4. Kiyotaki, N. and R. Wright (1993) "A Search-Theoretical Approach to Monetary Economics," *American Economic Review* 83, pp. 63-77.
5. Trejos, A. and R. Wright (1995) "Search, Bargaining, Money and Prices," *Journal of Political Economy* 103, pp. 118-41.

Grade Guidelines: The grading is based on your class ranking. The weights are: Final 80%, Problem Sets 20%.

We will cover the following topics:

Outline of the Course:

Part I Basic Representative Agent Problem.

1. A Static Model. Welfare theorems
2. Dynamics in the Presence of Government
3. A Two-Period Model and Intertemporal Decisions

Part II Dynamic Programming

1. The Finite Horizon Case
2. The Infinite Horizon Case
3. Applications:
 - (i) Labor Search and Unemployment
 - (ii) Money Search

Part III Overlapping Generations Models

1. The Basic OLG Model
2. Monetary Equilibrium and Policy Analysis
3. Dynamics
4. The Diamond Model

Part IV Asset Pricing

Part V Bargaining Theory