

Economics 200E: Introduction to Dynamic Macroeconomic Analysis

Professor Bergin, Spring 1998
Tu,Th 8:30-9:50 AM, Wellman 125
Office Hours: Tu, Th 2:30-4:00, 1141 SSH
E-mail: prbergin@ucdavis.edu

Objectives: This course is designed as an introduction to dynamic macroeconomic analysis, particularly recursive methods. Topics include consumption theory, asset pricing, aggregate price-level determination, and real business cycle models.

Readings: Readings are listed under each topic below. Book chapters (denoted by “*”), are on departmental reserve; the remaining papers are available in a reader from Navin’s copy center. Sargent, *Dynamic Macroeconomic Theory*, Cambridge: Harvard University Press, 1987 will be a useful reference throughout the course, and is available at the campus bookstore.

Grading: There will be a midterm in class May 12 (35% of grade), a final exam June 13 1:30-3:30 PM (45%), and several homework assignments (20%).

I. Introduction to Dynamic Programming

- * Sargent, T., *Dynamic Macroeconomic Theory*, Chapter 1.
- * Stokey, N., R. Lucas, and E. Prescott, *Recursive Methods in Economic Dynamics*, Cambridge, Massachusetts: Harvard University Press, 1989, Chapter 2.

II. Consumption and Asset Prices

- * Sargent, *Dynamic Macroeconomic Theory*, Chapter 3.
- * Romer, D., *Advanced Macroeconomics*, New York: McGraw-Hill, 1996, Chapter 7.

A. Permanent income hypothesis

Hall, R., 1978, “Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence,” *Journal of Political Economy* 86(6), 971-987.

B. Asset pricing

Lucas, R., 1978, “Asset Prices in an Exchange Economy,” *Econometrica*, 46(6), 1426-1445.

C. Consumption capital asset pricing model and equity premium puzzle

Mehra, R. and E. Prescott, 1985, “The Equity Premium: A Puzzle” *Journal of Monetary Economics* 15(2), 145-162.

III. Real Business Cycle Theory

- * Cooley, *Frontiers of Business Cycle Research*, Princeton: Princeton University Press, 1995, Chapter 1.
- * Romer, D., *Advanced Macroeconomics*, Chapter 4.
Campbell, J., 1994, “Inspecting the Mechanism: An Analytical Approach to the Stochastic Growth Model,” *Journal of Monetary Economics* 33(3), 463-506.
Hartley, Hoover and Salyer, *RBC Models: A User’s Guide*
Hansen, G. 1985, “Indivisible Labor and the Business Cycle.” *Journal of Monetary Economics*, 16, 309-327.

IV. Money and the Price Level (as time permits)

A. Price level determination

- * Sargent, *Dynamic Macroeconomic Theory*, Chapter 5
- Lucas, R., 1980, "Equilibrium in a Pure Currency Economy," *Economic Inquiry* 18(2), 203-220. (Reprinted in *Models of Monetary Economies*, ed. J. Kareken and N. Wallace, pp. 131-146. Minneapolis: Federal Reserve Bank of Minneapolis, 1980.)
- Lucas, R. 1982, "Interest Rates and Currency Prices in a Two-Country World," *Journal of Monetary Economics* 10(3), 335-359.
- Sargent, T. and N. Wallace, 1981, "Some Unpleasant Monetarist Arithmetic," *Federal Reserve Bank of Minneapolis Quarterly Review* 5(3), 1-17.

B. Implications for a production economy

- Stockman, A., 1981, "Anticipated Inflation and the Capital Stock in a Cash-in-Advance Economy" *Journal of Monetary Economics* 8, 387-393.
- Cooley, T.F., and G. Hansen, 1989, "The Inflation Tax in a Real Business Cycle Model," *American Economic Review* 79, 733-748.
- * Cooley, *Frontiers of Business Cycle Research*, Chapter 7.

C. Sticky-price economies

- Cho, J.O. and T. Cooley, "The Business Cycle with Nominal Contracts," *Economic Theory*, 6(1), 1995, 13-33.
- Blanchard, O. and N. Kiyotaki, 1987, "Monopolistic Competition and the Effects of Aggregate Demand," *American-Economic-Review*, 77(4), 1987, 647-66.