

# Macroeconomic Theory

## Syllabus

**Fall 2014**

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Office Hours: Thursdays 1-2:20 pm or by appointment

### **Course description**

This course is an introduction to advanced modern macroeconomics. Its goal is to provide an overview of the major theories concerning central questions in macroeconomics. A substantial portion will be devoted to models of long-term economic growth, and business cycles, as well as to issues related to open economy macroeconomics.

### **Course Grading**

There will be a mid-term exam, worth 30% of your final grade, and final exam, worth 40% of your grade. You are also required to write and present a paper for 25 % of your grade. The presentation will take place on the week before the last week of classes.

You are also required to read and present one paper from the list below. The presentation is worth 5% of your final grade.

I will hand out problems from time to time. We will discuss some of these in class.

### **Course Materials**

The course will be based on lecture notes but will draw on materials from the following books:

Modern Macroeconomics, Its Origins, Development and Current State, by Brian Snowdon and Howard Vane, 2005,

Advanced Macroeconomics, 3<sup>rd</sup>, David Romer, 2006, McGraw-Hill, New York

The books are intended to provide students with supplemental reading on topics covered in lectures. Some lecture topics will not be covered in the textbooks. To provide students with an additional resource, I will place all my lecture notes on the course website in Blackboard before class. Additional journal articles will be recommended during lectures.

## Course Outline

### Part I

#### Overview

Editorial and accompanying opinion pieces, "**What Went Wrong with Economics?**", "**The Other Worldly Philosophers**", and "**Efficiency and Beyond**", *The Economist*, July 16th, 2009.

<http://www2.econ.iastate.edu/tesfatsi/CritiqueOfEcon.Economist2009.pdf>

"**Symposium: Macroeconomics after the Financial Crisis**", *Journal of Economic Perspectives (JEP)*, Volume 24, No. 4, Fall 2010, pages 3-102. (Articles by Robert H. Hall, Michael Woodford, Lee E. Ohanian; Andreas Fuster et al., and Ricardo J. Caballero)

#### **I.I Neoclassical Macroeconomic Models**

Snowdon and Vane, chapter 2

#### **I.2 Keynesian Macroeconomic Models**

Snowdon and Vane, chapters 2, 3

Krugman, P. "There's something about macro",  
<http://web.mit.edu/krugman/www/islm.html>

Blinder A. (1988) "The Fall and Rise of Keynesian Economics" ER

King, R. (1993) "Will the New Keynesian Macroeconomics Resurrect the IS-LM Model?" JEP

Hicks, J. (1937) "Mr. Keynes and the Classics: A Suggested Interpretation"  
*Econometrica*

Gordon, Robert J. (2011), "The History of the Phillips Curve: Consensus and Bifurcation", *Economica*, Vol. 78 (309) Pages: 10-50

Gordon, RJ, (1990) "What is new-keynesian economics", *Journal of Economic Literature*, 28(3), 1115-1171

Almonacid RD, 2003, "The determinants of nominal income, output and the price level - A synthesis of the Keynesian and neo-classical views" *Journal of International Money and Finance*, Vol22 (6), 747-

Kirman, A. (1992) "Whom or What Does the Representative Individual Represent?" JEP

Cukierman A, 2005, "Keynesian economics, monetary policy and the business cycle - New and old, CESIFO ECONOMIC STUDIES Vol 51(4) Pages: 697-728

Melmies. J, 2010, "New Keynesian vs Post Keynesian on the Theory of Prices", *Journal of Post Keynesian Economics*, 32(3)

#### **1.3 Monetarism/New classical macroeconomic models**

Snowdon and Vane, chapters 5 and 6

Lothian, J, (2009) "Milton Friedman's monetary economics and the quantity theory tradition", *Journal of International Money and Finance*, vol. 28

Lucas, Robert E., Jr. 1972. "Expectations and the Neutrality of Money." *Journal of Economic Theory*, 4: 103-124.

Lucas, Robert E., Jr. 1976. "Econometric Policy Evaluation: A Critique." *Carnegie-Rochester Conference Series*, 1: 19-46

Prescott, E. (1986) "Theory Ahead of Business Cycle Measurement", *Federal Reserve Bank of Minneapolis Quarterly Review*.

Summers, L. (1986) "Some Skeptical Observations on Real Business Cycle Theory", *Minneapolis Fed Quarterly Review*.

Plosser, Ch. (1989) "Understanding Real Business Cycles". *JEP*

King, R., and S. Rebelo (1999) "Resuscitating Real Business Cycles" *HandBook of Macroeconomics*

Kydland, F. and E. Prescott (1982) "Time to Build and Aggregate Fluctuations" *Econometrica*

Mankiw, G. (1989) "Real Business Cycles: A New Keynesian Perspective". *JEP*

Williamson, Wright, (2010), "New Monetarist Economics" *FED St. Louis Review*, 92(4)

### **I.3 Contemporary Debates in Macroeconomics**

Stiglitz, Joseph E.. (2011), "RETHINKING MACROECONOMICS: WHAT FAILED, AND HOW TO REPAIR IT. *Journal of the European Economic Association*, Vol. 9 (4), p591-645

John B. Taylor, "Macroeconomic Lessons from the Great Deviation (pp. 387-395)

Van der Ploeg F, (2005), "Back to Keynes?" *CESIFO Economic Studies* Vol: 51(4)

Woodford Michael , (2009), "Convergence in Macroeconomics: Elements of the New Synthesis", *American Economic Journal - Macroeconomics* Vol: 1(1) Pages: 267-279

Blanchard, O (Blanchard, O), (2000), "What do we know about macroeconomics that Fisher and Wicksell did not? *QJE* Vol 115(4) Pages: 1375-1409

Ohanian, Lee, 2010, "The Economic Crisis from a Neo classical perspective", *JEP*, vol. 24(4)

Ricardo J. Caballero, (2010), "Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome", *Journal of Economic Perspectives*, Vol24, Issue 4

Reinhart, Carmen & Rogoff, Kenneth, (2009). "This Time It's Different: Eight Centuries of Financial Folly-Preface,

Krugman, P. (2009), "How Did Economists Get It So Wrong?", *NY Times*  
<http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?pagewanted=all>

Raghuram G. Rajan (2010) "Fault Lines: How Hidden Fractures Still Threaten the World Economy"

Blinder, Alan (2013) "After the Music Stopped: The Financial Crisis, The Response and the Work Ahead"

## **Part II – Economic Growth**

Snowdon and Vane, chapter 11

Acemoglu, Daron and James Robinson (2012) "Why Nations Fail: The Origins of Power, Prosperity, and Poverty"

### **II.1 Growth Facts and the world income distribution**

Piketty, Thomas (2014) "Capital in the Twenty-First Century"

Jones, C. (1997) "On the Evolution of the World Income Distribution" *JEP*

Sala-i-Martin, X. (2006) "The World Distribution of Income: Falling Poverty and ...convergence, period", QJE  
Bourguignon, F. and C. Morrisson (2002) "Inequality among World Citizens: 1820-1992" AER  
Dollar, David and Kraay, Aart (2002) "Growth Is Good for the Poor," JEG.

### **II.2 The Neoclassical Growth Model**

Solow (1956), "A Contribution to the Theory of Economic Growth" QJE  
Mankiw, G, D. Romer and D. Weil (1992) "A Contribution to the Empirics of Economic Growth"  
Lucas, R. (1990), "Why Doesn't Capital Flow from Rich to Poor Countries" AER  
Peter J. Klenow, Andrés Rodríguez-Clare, "The Neoclassical Revival in Growth Economics: Has It Gone Too Far?", In: NBER Macroeconomics Annual 1997, Volume 12, pp. 73-103  
Alwyn Young A, 1992, "Tale of Two Cities: Factor Accumulation and Technical Change in Hong Kong and Singapore", NBER Macroeconomics Annual, Vol. 7, 1992 , pp. 13-54

### **II.3 Endogenous Growth Theory**

Solow R. (1994) "Perspectives on Growth Theory" JEP  
Romer, P. (1994) "The Origins of Endogenous Growth" JEP  
Grossman, G. and E Helpman (1994) "Endogenous Innovation in the Theory of Growth" JEP  
Romer, P. (1986) "Increasing Returns and Long-Run Growth" JPE  
Lucas, R. (1988) "On the Mechanics of Economic Development" JME  
Pack, H. (1994) "Endogenous Growth Theory: Intellectual Appeal and Empirical Shortcomings" JEP  
Jones, C. (1995) "Time Series Tests of Endogenous Growth Model", QJE, vol. 110(2)  
George, Donald A. R., (2011), "Contributions on Economic Growth", Journal of Economic Surveys, Vol 25 (5) Pages: 829-832

## **Part IV – Open Economy Macroeconomics**

The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?  
Maurice Obstfeld, Kenneth Rogoff Vol. 15, (2000), pp. 339-390