

Advanced Macroeconomics III

Fall 2009

Meeting Time: Monday 8:00am - 10:50am (09/07/2009-12/28/2009)

Meeting Place: 4302

Course webpage: <http://individual.utoronto.ca/zheli/teach.html>

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Description of the Course:

This is an advanced Ph.D course on Macroeconomics, aimed at second year Ph.D students. This course will be based on a collection of papers that cover endogenous growth, business cycle theory, and asset pricing and banking. The course is intended to achieve two objectives. One is to introduce students to a selected set of Macroeconomic issues, and the other is to demonstrate how to use analytical models and techniques to examine the issues. Both the issues and the models should be treated as important components of the course. While the issues provide the motivations for the analysis, the models provide the necessary abstraction to make the analysis tractable and consistent.

Evaluation and Assessment:

Students are expected to actively participate in the course, work out the models presented in the class and modified models given in the assignments, read other listed papers and give a presentation.

Assignments: 20%;

Assignments handed in after the due date will not be accepted. If acceptable reasons prevent a student from handing in an assignment on time, the weight for that assignment will be re-assigned to the final exam.

Presentation: 15%

The topic of the presentation can be selected from the list of the references provided below. Since the time is limited, 4 students are expected to work together to give a one-hour presentation. Students are expected to form a group and select a topic before the third lecture (Sep. 21).

Midterm: 25%;
Final exam: 40%

Reading List:

** marked as papers that will be covered in the lectures. All the papers are available on the course webpage.

A. Endogenous Growth Theory (4 weeks)

1. ** Lucas, R., 1988. "[On the Mechanism of Economic Development.](#)" *Journal of Monetary Economics* 22, p. 2-42. [Slides](#)
2. Romer, P. M. 1990. "[Endogenous Technological Change.](#)" *Journal of Political Economy* 98, p. 71-102.
3. ** Aghion, P. and P. Howitt. 1992. "[A Model of Growth through Creative Destruction.](#)" *Econometrica* 60, p. 323-351. [Slides](#)
4. Song, Z, K. Storesletten and F. Zilibotti, 2009. "[Growing Like China.](#)" Working paper.

B. Asset Pricing (2 week)

5. ** Lucas, R.E., 1978. "[Asset prices in an exchange economy.](#)" *Econometrica* 46, p. 1429-1445. [Slides](#)
6. ** Mehra, R. and E.C. Prescott, 1985. "[The equity premium: a puzzle,](#)" *Journal of Monetary Economics* 15, p. 145-161. [Slides](#)

C. Real Business Cycles

7. Kydland, F. E. and E. C. Prescott, 1982. "[Time to Build and Aggregate Fluctuations.](#)" *Econometrica* 50, p. 1345-1370.
8. Long, J. B. and C. I. Plosser, 1983. "[Real Business Cycles.](#)" *Journal of Political Economy* 91, p. 39-69.
9. Hansen, G. D., 1985. "[Indivisible Labor and the Business Cycle.](#)" *Journal of Monetary Economics* 16, p. 309-327.
10. Greenwood, J., Hercowitz, Z. and G. W. Huffman, 1988. "[Investment, Capacity Utilization, and the Real Business Cycle.](#)" *American Economic Review* 78: 402-417.
11. Burnside, C., Eichenbaum, M., and S. Rebelo, 1993. "[Labor Hoarding and the Business Cycle.](#)" *Journal of Political Economy* 101, p. 245-273.

D. Search Theory and Business Cycles (2 weeks)

12. Mortensen, D.T., and C.A. Pissarides, 1994. "[Job creation and job destruction in the theory of unemployment.](#)" *Review of Economic Studies* 61, p.397-415.
13. ** Andolfatto, D. 1996. "[Business cycles and labor market search.](#)" *American Economic Review* 86, p. 112-132. [Slides](#)

14. Merz, M., 1995, "[Search in the labor market and the real business cycle.](#)" *Journal of Monetary Economics* 36, p. 269-300.
15. Shimer, R., 2005. "[The cyclical behavior of equilibrium unemployment and vacancies.](#)" *American Economic Review* 95, p. 25-49.
16. Shimer, R., 2009. *Labor Market and Business Cycles*, forthcoming.
17. ** Menzio, G., and S. Shi, 2008. "[Efficient search on the job and the business cycle.](#)" Working paper, University of Toronto. [Slides](#)

E. Monetary Economics and Business Cycles (3 week)

18. Lucas, R. E. Jr., 1972. "[Expectations and the Neutrality of Money.](#)" *Journal of Economic Theory* 4, p. 103-124.
19. Lucas, R. E. Jr., 1973. "Some [International Evidence on Output-Inflation Tradeoffs.](#)" *American Economic Review* 63, p. 326-334.
20. ** Faig, M., and Z. Li, 2009. "[The Welfare Costs of Expected and Unexpected Inflation.](#)" Forthcoming *Journal of Monetary Economics*. [Slides](#)
21. ** Williamson S., and R. Wright, 2009. "[New Monetarist Economics.](#)" Manuscript. [Slides](#)
22. ** Menzio, G., S. Shi, and H. Sun, 2009. "[A Monetary Theory with Non-Degenerate Distributions.](#)" Manuscript. [Slides](#)

F. Liquidity, Banking and Credit Cycles (2 weeks)

23. ** Diamond, D. and P. Dybvig, 1983. "[Bank runs, deposit insurance and Liquidity.](#)" *Journal of Political Economy* 91, p.410-419. [Slides](#)
24. Williamson, S., 1987. "[Costly monitoring, financial intermediation, and equilibrium credit rationing.](#)" *Quarterly Journal of Economics* 102, p. 135-146.
25. Greenwald, B. and J. Stiglitz, 1993. "[Financial market imperfections and business cycles.](#)" *Quarterly Journal of Economics* 108, p. 77-114.
26. Bernanke, B., and M. Gertler, 1989, "[Agency costs, net worth, and business fluctuations.](#)" *American Economic Review* 79, p. 14-31.
27. ** Kiyotaki, N. and J.H. Moore, 1997. "[Credit cycles.](#)" *Journal of Political Economy* 105, p. 211-248. [Slides](#)
28. Lucas, R., Jr., 1990, "[Liquidity and interest rates.](#)" *Journal of Economic Theory* 50, p. 237-264.

G. Housing bubbles, Leverage Cycles and U.S. Crisis 2008 (2 week)

29. **Geanakoplos, J., 2009. "[The Leverage Cycle.](#)" Manuscript. [Slides](#)
30. Fostel, A. and J. Geanakoplos, 2008. "[Leverage Cycle and the Anxious Economy.](#)" *American Economic Review* 98(4), p. 1211-1244.
31. Hellman, T., K. Murdock and J. Stiglitz, 2000. "[Liberalization, Moral Hazard in Banking, and Prudential Regulation: Are Capital Requirements Enough?](#)" *American Economic Review* 90(1).
32. Lagos, R., G. Rocheteau, and P. Weill, 2009. "[Crashes and Recoveries in Illiquid Markets.](#)" Manuscript.

Course schedule (subject to change)

Sep. 7	Introduction Paper A1	
Sep. 14	Paper A1 Assignment 1	
Sep. 21	Paper A3	Select presentation topics
Sep. 28	Paper A3 Assignment 2	Assignment 1 due
Oct. 12	Paper B5 Student Presentation Assignment 3	Assignment 2 due
Oct. 19	Paper B6 Student Presentation	
Oct. 26	Paper D13	Assignment 3 due
Nov. 2	Midterm exam (on topic A and B)	
Nov. 9	Paper D17 Assignment 4	
Nov. 16	Paper E20	
Nov. 23	Paper E21 Student presentation	Assignment 4 due
Nov. 30	Paper E22 Student presentation	
Dec. 7	Paper F23 Assignment 5 Student presentation	
Dec. 14	Paper F27	
Dec. 21	Paper G29 Student presentation	Assignment 5 due
Dec. 28	Paper G29 Student presentation Student presentation	
	Final Exam	Between Jan 4 --Jan 15