

Advanced Macroeconomics III

Fall 2010

Meeting Time: Friday 8:00am - 10:50am (09/10/2010-12/31/2010)

Meeting Place: 4209

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

Instructor: Zhe Li

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Office Hours: Thursday 1:30pm-3:30pm or by appointment

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Description of the Course:

This is an advanced Ph.D (Master-PhD stream) course on Macroeconomics, aimed at second year Ph.D (Master-PhD stream) students. This course will be based on a collection of papers that cover endogenous growth, business cycle theory, asset pricing and banking, and financial crisis. 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. 24).

Midterm: 30%;

Final exam: 35%

Reading List:

** marked as papers that will be covered in the lectures.

A. Endogenous Growth Theory (3 weeks)

1. **Lucas, R., 1988. "[On the Mechanics 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. Acemoglu, Daron, 2010. *Introduction to Modern Economic Growth*, MIT press.
5. Acemoglu, Daron, 2002. "[Directed Technical Change.](#)" *Review of Economic Studies*, 69. p. 781-810.
6. Acemoglu, Daron, and Pol, Antras, and Elhanan Helpman, 2007. "[Contracts and Technology Adoption.](#)" *American Economic Review* 97(3), p. 916-943.
7. Acemoglu, Daron, and Guerrieri Veronica, 2008. "[Capital Deepening and Nonbalanced Economic Growth.](#)" *Journal of Political Economy*, 116(3), p. 467-498.
8. Song, Z, K. Storesletten and F. Zilibotti, 2010. "[Growing Like China.](#)" *American Economic Review*, forthcoming.

B. Real Business Cycles (1 week)

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

C. Asset Pricing (2 weeks)

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

D. Monetary Business Cycles (2 week)

16. **Lucas, R. E. Jr., 1972. "[Expectations and the Neutrality of Money.](#)" *Journal of Economic Theory* 4, p. 103-124. [Slides](#)
17. Lucas, R. E. Jr., 1973. "Some [International Evidence on Output-Inflation Tradeoffs.](#)" *American Economic Review* 63, p. 326-334.
18. **Faig, M., and Z. Li, 2009. "[The Welfare Costs of Expected and Unexpected Inflation.](#)" *Journal of Monetary Economics* 56(7), p. 1004-1013. [Slides](#)

E. Liquidity, Banking and Credit Cycles (5 weeks)

19. ** Diamond, D. and P. Dybvig, 1983. "[Bank runs, deposit insurance and Liquidity.](#)" *Journal of Political Economy* 91, p.410-419. [Slides](#)
20. Williamson, S., 1987. "[Costly monitoring, financial intermediation, and equilibrium credit rationing.](#)" *Quarterly Journal of Economics* 102, p. 135-146.
21. Greenwald, B. and J. Stiglitz, 1993. "[Financial market imperfections and business cycles.](#)" *Quarterly Journal of Economics* 108, p. 77-114.
22. **Bernanke, B., and M. Gertler, 1989, "[Agency costs, net worth, and business fluctuations.](#)" *American Economic Review* 79, p. 14-31. [Slides](#)
23. ** Kiyotaki, Nobuhiro. and John H. Moore, 1997. "[Credit cycles.](#)" *Journal of Political Economy* 105, p. 211-248. [Slides](#)
24. Lucas, R., Jr., 1990, "[Liquidity and interest rates.](#)" *Journal of Economic Theory* 50, p. 237-264.
25. Kiyotaki, Nobuhiro, and John Moore, 2008. "Liquidity, Business Cycles, and Monetary Policy." Manuscript.
26. Gertler, Mark, and Nobuhire Kiyotaki, 2009. "Financial Intermediation and Credit Policy in Business Cycle Analysis." Manuscript.

F. Housing bubbles, Leverage Cycles and Financial Crisis (2 week)

27. **Geanakoplos, J., 2009. "[The Leverage Cycle.](#)" Manuscript. [Slides](#)
28. Fostel, A. and J. Geanakoplos, 2008. "[Leverage Cycle and the Anxious Economy.](#)" *American Economic Review* 98(4), p. 1211-1244.
29. 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).
30. Iacoviello, Matteo, 2005. "House Prices, Borrowing Constraints, and Monetary Policy in the Business Cycle." *American Economic Review* 95(3).
31. Mian, Atif, and Sufi, Amir. "House Prices, Home Equity-Based Borrowing, and the U.S. Household Leverage Crisis." *American Economic Review*. Forthcoming.

Course schedule (subject to change)

Sep. 10	Introduction Paper A1	
Sep. 17	Paper A1 Assignment 1	
Sep. 25	Paper A3	Select presentation topics
Oct. 8	Paper A3 , Paper B11	
Oct. 15	Paper C14 Assignment 2 Presentation: A6 陈张良, 沈新风, 陈杰	Assignment 1 due
Oct. 22	Paper C15 Presentation: B12 荣健欣, 王大中, 胡博	
Oct. 29	Paper D16	
Nov. 5	Paper D18	Assignment 2 due
Nov. 12	Paper E19 Assignment 3 Presentation: B13 宫汝凯, 胡志军, 刘宗明, 卢晶 亮, 史学贵	
Nov. 19	Midterm exam (on topic A, B, and C)	
Nov.26	Paper E19 Assignment 4 Presentation: E20 尤恺, 左 大勇, 孙亚	
Dec. 3	Paper E22 Presentation: E24 赵海涛, 张健, 万兰兰, 张安宁	Assignment 3 due
Dec. 10	Paper E23 Presentation: E26 翁毅, 赵 峰, 王建斌	
Dec.17	Paper E23 Presentation: P2 张同斌, 赵 伟, 张勇 , 宗庆庆, 赵军 柱	Assignment 4 due
Dec. 24	Paper F27 Presentation: P1 陈爱平, 李 洪亚, 郭宁	
Dec. 31	Final Exam	