

Advanced Macroeconomics III

Spring 2013

Meeting Time: Wednesday 1:20pm - 5:05pm

Meeting Place: 4202

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

Instructor: Zhe Li

Email: lizhezhe@hotmail.com

Office Phone: 65904363

Office Location: Room 407, School of Economics building

Office Hours: by appointment

TA: Jie Chen

TA's Email: chenjie50691293@163.com

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, banking, and labor market theory. 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.

Textbook (Supplementary)

1. Lars Ljungqvist and Thomas J. Sargent, 2004. *Recursive Macroeconomic Theory*, MIT Press
2. Thomas F. Cooley (ed.), 1997. *Frontiers of Business Cycle Research*, Princeton University Press
3. Acemoglu, Daron, 2010. *Introduction to Modern Economic Growth*, MIT press
4. Stokey, Nancy und Lucas, Robert E., with E. Prescott, 1989. *Recursive Methods in Economic Dynamics*, Harvard University Press, Cambridge MA, London

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.

Midterm: 30%

Final exam: 35%

Academic Dishonesty

Academic dishonesty by the student code of conduct includes cheating on the assignments or exams; plagiarizing; altering; forging, or misusing a University academic record; taking, acquiring, or using test materials without faculty permission; and acting alone or in cooperation with another to enhance a grade, etc. A minimum penalty for academic dishonesty is a grade of zero. Other penalties may include a “Fail” in course and a complaint to university authorities so that they act consequently with the corresponding university policy.

Reading List:

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

A. Asset Pricing (2 weeks)

Book chapters: Ljungqvist and Sargent, Chapter 10

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

B. Endogenous Growth Theory (3 weeks)

Book chapters: Acemoglu chapter 1, 12, 13

3. **Lucas, R., 1988. "[On the Mechanics of Economic Development.](#)" *Journal of Monetary Economics* 22, p. 2-42.
4. Romer, P. M. 1990. "[Endogenous Technological Change.](#)" *Journal of Political Economy* 98, p. 71-102.
5. **Aghion, P. and P. Howitt. 1992. "[A Model of Growth through Creative Destruction.](#)" *Econometrica* 60, p. 323-351.
6. Song, Z, K. Storesletten and F. Zilibotti, 2011. "[Growing Like China.](#)" *American Economic Review* 101(1): 196–233.

C. Real Business Cycles

Book chapters: Cooley, Chapters 1, 2

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. [Slides](#)
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. Monetary Theory and Monetary Cycles

Book chapters: Ljungqvist and Sargent, Chapter 24, 25, 26

12. Lucas, R. E. Jr., 1972. "[Expectations and the Neutrality of Money.](#)" *Journal of Economic Theory* 4, p. 103-124.
13. Lucas, R. E. Jr., 1973. "Some [International Evidence on Output-Inflation Tradeoffs.](#)" *American Economic Review* 63, p. 326-334.
14. Lagos Ricardo, and Randall Wright, 2005. "A Unified Framework for Monetary Theory and Policy Analysis," *Journal of Political Economy* 113(3): 463-484.
15. Faig, M., and Z. Li, 2009. "[The Welfare Costs of Expected and Unexpected Inflation.](#)" *Journal of Monetary Economics* 56(7), p. 1004-1013.

E. Credit Cycles (3 weeks)

16. Greenwald, B. and J. Stiglitz, 1993. "[Financial market imperfections and business cycles.](#)" *Quarterly Journal of Economics* 108, p. 77-114.
17. **Bernanke, B., and M. Gertler, 1989, "[Agency costs, net worth, and business fluctuations.](#)" *American Economic Review* 79, p. 14-31.
18. ** Kiyotaki, Nobuhiro. and John H. Moore, 1997. "[Credit cycles.](#)" *Journal of Political Economy* 105, p. 211-248.
19. Kiyotaki, Nobuhiro, and John Moore, 2008. "Liquidity, Business Cycles, and Monetary Policy." Manuscript.
20. Gertler, Mark, and Nobuhire Kiyotaki, 2009. "Financial Intermediation and Credit Policy in Business Cycle Analysis." Manuscript.

F. Banking and labor market (4 weeks)

21. ** Diamond, D. and P. Dybvig, 1983. "[Bank runs, deposit insurance and Liquidity.](#)" *Journal of Political Economy* 91, p.410-419.
22. Williamson, S., 1987. "[Costly monitoring, financial intermediation, and equilibrium credit rationing.](#)" *Quarterly Journal of Economics* 102, p. 135-146.
23. ** Li, Z., K. Huang, and J. Sun, 2013. "Lending Competition and Endogenous Credit Supply: A General Equilibrium Theory of Loan Sales." Manuscript.
24. Peters, Michael, 1984. "Bertrand equilibrium with capacity constraints and restricted mobility." *Econometrica* 52 (5): 1117-1127.
25. Burdett, Kenneth, Shouyong Shi, and Randall Wright, 2001. "Pricing and Matching with Frictions." *Journal of Political Economy* 109 (5): 1060-1085.
26. **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).