

MACROECONOMIC THEORY

Office hours:

David Romer: Th 2:00–4:00, 679 Evans

Nick Sander (GSI for first half): W 1–2, 636 Evans; Th 8–9, 640 Evans

Ben Scuderi (GSI for second half): W 1–2, 636 Evans; Th 8–9, 640 Evans (tentative)

Midterm exam: Thursday, Oct. 11, in class.

Final exam: Friday, Dec. 14, 3–6 PM (subject to final determination by the registrar's office).

Readings with a "*" are required.

I. Introduction: The State of Macroeconomics

Ben S. Bernanke, "Japanese Monetary Policy: A Case of Self-Induced Paralysis?" in Ryoichi Mikitani and Adam S. Posen, eds., *Japan's Financial Crisis and Its Parallels to U.S. Experience* (Washington, D.C.: Institute for International Economics, 2000), 149–166. http://www.iie.com/publications/chapters_preview/319/7iie289X.pdf

*Lee E. Ohanian, "The Economic Crisis from a Neoclassical Perspective," *Journal of Economic Perspectives* 24 (Fall 2010), 45–66.
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.4.45>

*Ricardo J. Caballero, "Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome," *Journal of Economic Perspectives* 24 (Fall 2010), 85–102.
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.4.85>

II. The Solow Model

*David Romer, *Advanced Macroeconomics*, fifth edition (New York: McGraw-Hill, 2019), Chapter 1.

Robert E. Lucas, Jr., "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review* 80 (May 1990), 92–96. www.jstor.org/stable/pdf/2006549.pdf

John Fernald and Brent Neiman, "Growth Accounting with Misallocation: Or, Doing Less with More in Singapore," *American Economic Journal: Macroeconomics* 3 (April 2011), 29–74. www.jstor.org/stable/pdf/41237142.pdf

Thomas Piketty, *Capital in the Twenty-First Century*, translated by Arthur Goldhammer (Cambridge: Harvard University Press, 2014).

Thomas Piketty and Gabriel Zucman, "Capital Is Back: Wealth-Income Ratios in Rich Countries 1700–2010," *Quarterly Journal of Economics* 129 (August 2014), 1255–1310. <https://doi.org/10.1093/qje/qju018>

*Matthew Rognlie, "A Note on Piketty and Diminishing Returns to Capital," unpublished paper, M.I.T., June 2014. [http://mattrognlie.com/piketty diminishing returns.pdf](http://mattrognlie.com/piketty%20diminishing%20returns.pdf)

Matthew Rognlie, "Deciphering the Fall and Rise in the Net Capital Share: Accumulation or Scarcity?" *Brookings Papers on Economic Activity*, Spring 2015, 1–54. www.jstor.org/stable/pdf/43684097.pdf

III. The Ramsey-Cass-Koopmans Model and Dynamic Optimization

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 2, Part A.

Robert J. Barro and Xavier Sala-i-Martin, *Economic Growth*, second edition (Cambridge: MIT Press, 2004), Chapter 2 and Appendix A.3 (at end of book).

*Maurice Obstfeld, "Dynamic Optimization in Continuous-Time Economic Models (A Guide for the Perplexed)," unpublished paper, U.C. Berkeley, April 1992. Sections I and II. <http://www.econ.berkeley.edu/~obstfeld/ftp/perplexed/cts4a.pdf>

Martin Weitzman, *Income, Wealth, and the Maximum Principle* (Cambridge: Harvard University Press, 2003).

IV. Overlapping Generations

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 2, Part B.

Olivier J. Blanchard and Charles M. Kahn, "The Solution of Linear Difference Models under Rational Expectations," *Econometrica* 48 (September 1980), 1305–1311. www.jstor.org/stable/pdf/1912186.pdf

Olivier J. Blanchard, "Debts, Deficits, and Finite Horizons," *Journal of Political Economy* 93 (April 1985), 223–247. <http://www.jstor.org/stable/pdf/1832175>

Jean Tirole, "Asset Bubbles and Overlapping Generations," *Econometrica* 53 (November 1985) 1499–1528. www.jstor.org/stable/pdf/1911012.pdf

*Gauti B. Eggertsson, Neil R. Mehrotra, and Jacob A. Robbins, "A Model of Secular Stagnation: Theory and Quantitative Evaluation," National Bureau of Economic Research Working Paper 23093 (January 2017). *American Economic Journal: Macroeconomics*, forthcoming. Sections 1-4 only. www.nber.org/papers/w23093.pdf

V. Endogenous Growth Theory

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 3.

Paul M. Romer, "Endogenous Technical Change," *Journal of Political Economy* 98 (October 1990, Part 2), S71–S102. www.jstor.org/stable/pdf/2937632.pdf

Robert E. Lucas, Jr., "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22 (July 1988), 3–42. [http://dx.doi.org/10.1016/0304-3932\(88\)90168-7](http://dx.doi.org/10.1016/0304-3932(88)90168-7)

Charles I. Jones, "Growth and Ideas," in Philippe Aghion and Steven Durlauf, eds., *Handbook of Economic Growth*, Volume 1B (Amsterdam: Elsevier, 2005), 1063–1111. [http://dx.doi.org/10.1016/S1574-0684\(05\)01016-6](http://dx.doi.org/10.1016/S1574-0684(05)01016-6)

*Charles I. Jones, "Time-Series Tests of Endogenous Growth Models," *Quarterly Journal of Economics* 110 (May 1995), 495–525. www.jstor.org/stable/pdfplus/2118448.pdf

Michael Kremer, "Population Growth and Technical Change: One Million B.C. to 1990," *Quarterly Journal of Economics* 108 (August 1993), 681–716. <http://www.jstor.org/stable/pdfplus/2118405.pdf>

Oded Galor, *Unified Growth Theory* (Princeton: Princeton University Press, 2011).

Robert J. Gordon, "The Demise of U.S. Economic Growth: Restatement, Rebuttal, and Reflections." NBER Working Paper No. 19895 (February 2014). www.nber.org/papers/w19895.pdf

*Charles I. Jones and Jihee Kim, "A Schumpeterian Model of Top Income Inequality," unpublished paper, Stanford University, June 2017. *Journal of Political Economy*, forthcoming. <https://web.stanford.edu/~chadj/inequality.pdf>

VI. Cross-Country Income Differences

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 4.

*Robert E. Hall, and Charles I. Jones, "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics* 114 (February 1999), 83–116. <https://www.jstor.org/stable/pdf/2586948.pdf>

Peter J. Klenow and Andrés Rodríguez-Clare, "The Neoclassical Revival in Growth Economics: Has It Gone Too Far?" *NBER Macroeconomics Annual* 12 (1997), 73–103. www.jstor.org/stable/pdf/3585220.pdf

Chang-Tai Hsieh and Peter J. Klenow, "Relative Prices and Relative Prosperity." *American Economic Review* 97 (June 2007), 562–585.
<http://www.jstor.org/stable/pdf/30035012/pdf>

Chang-Tai Hsieh and Peter J. Klenow, "Misallocation and Manufacturing TFP in China and India," *Quarterly Journal of Economics* 124 (November 2009), 1403–1448.
www.jstor.org/stable/pdf/40506263.pdf

*Stelios Michalopoulos and Elias Papaioannou, 2014, "National Institutions and Subnational Development in Africa," *Quarterly Journal of Economics* 129 (February), 151–213. <https://doi.org/10.1093/qje/qjt029>

Daron Acemoglu, "Why Not a Political Coase Theorem? Social Conflict, Commitment and Politics." *Journal of Comparative Economics* 31 (December 2003), 620–652.
<http://dx.doi.org/10.1016/j.jce.2003.09.003>

VII. Consumption and Dynamic Programming

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 8.

Milton Friedman, A Theory of the Consumption Function, Chapters 1–3, 3–37.
<http://papers.nber.org/books/frie57-1>

Lars Ljungqvist and Thomas J. Sargent, *Recursive Macroeconomic Theory*, third edition (Cambridge: MIT Press, 2012), Chapter 3.

John Y. Campbell and N. Gregory Mankiw, "Consumption, Income, and Interest Rates: Reinterpreting the Time Series Evidence," *NBER Macroeconomics Annual* 4 (1989), 185–216. <http://www.jstor.org/stable/pdf/3584973/pdf>

*Chang-Tai Hsieh, "Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund," *American Economic Review* 93 (March 2003) 397–405.
<http://www.jstor.org/stable/pdf/3132183/pdf>

Lorenz Kueng, "Excess Sensitivity of High-Income Consumers," unpublished paper, Northwestern University, May 2018. *Quarterly Journal of Economics*, forthcoming.
<https://doi.org/10.1093/qje/qjy014>

*Jonathan A. Parker, Nicholas S. Souleles, David S. Johnson, Robert McClelland, "Consumer Spending and the Economic Stimulus Payments of 2008," *American Economic Review* 103 (October 2013), 2530–2553.
www.jstor.org/stable/pdf/42920659.pdf

Claudia R. Sahm, Matthew D. Shapiro, and Joel Slemrod, "Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How It Is Delivered?" *American Economic Journal: Economic Policy* 4 (August 2012), 216–250. <https://www.jstor.org/stable/pdf/23249926.pdf>

Pierre-Olivier Gourinchas and Jonathan A. Parker, "Consumption over the Lifecycle," *Econometrica* 70 (January 2002), 47–91. www.jstor.org/stable/pdf/2692163.pdf

Mark Aguiar and Erik Hurst, "Consumption vs. Expenditure," *Journal of Political Economy* 113 (October 2005), 919–948. www.jstor.org/stable/pdf/10.1086/491590.pdf

Greg Kaplan, Giovanni L. Violante, and Justin Weidner, "The Wealthy Hand-to-Mouth," *Brookings Papers on Economic Activity*, 2014 (Spring), 77–138. www.jstor.org/stable/pdf/23936272.pdf

VIII. Investment

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 9.

Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics* (Cambridge: MIT Press, 1996), 105–113.

Austan Goolsbee, "Investment Tax Incentives, Prices, and the Supply of Capital Goods," *Quarterly Journal of Economics* 113 (February 1998), 121–148. <http://www.jstor.org/stable/pdf/2586987/pdf>

Avinash K. Dixit and Robert S. Pindyck, *Investment under Uncertainty* (Princeton: Princeton University Press, 1994), Chapters 1–5.

Ricardo Caballero and Eduardo Engel, "Explaining Investment Dynamics in U.S. Manufacturing: A Generalized (S,s) Approach," *Econometrica* 67 (July 1999), 783–826. www.jstor.org/stable/pdf/2999458.pdf

*Germán Gutiérrez and Thomas Philippon, "Investmentless Growth: An Empirical Investigation," *Brookings Papers on Economic Activity*, Fall 2017, 89–169. Sections I–V only. <https://www.jstor.org/stable/pdf/90019456.pdf>

IX. Financial Markets and Financial Crises

*David Romer, *Advanced Macroeconomics*, fifth edition, Chapter 10.

*Chen Lian and Yueran Ma, "Anatomy of Corporate Borrowing Constraints," unpublished paper, University of Chicago, August 2018. <https://economics.mit.edu/files/14833>

- Lawrence H. Summers, "Does the Stock Market Rationally Reflect Fundamental Values?" *Journal of Finance* 41 (July 1986) 591–601. www.jstor.org/stable/pdf/2328487.pdf
- J. Bradford DeLong, Andrei Shleifer, Lawrence H. Summers, and Robert J. Waldmann, "Noise Trader Risk in Financial Markets," *Journal of Political Economy* 108 (August 1990) 703–738. <http://www.jstor.org/stable/pdf/2937765/pdf>
- Andrei Shleifer and Robert Vishny, "The Limits of Arbitrage," *Journal of Finance* 52 (March 1997) 35–55. <http://www.jstor.org/stable/pdf/2329555/pdf>
- *Owen A. Lamont and Richard H. Thaler, "Can the Market Add and Subtract? Mispricing in Tech Stock Carve-outs," *Journal of Political Economy* 111 (April 2003), 227–268. www.jstor.org/stable/pdf/10.1086/367683.pdf
- Ben S. Bernanke, Mark Gertler, and Simon Gilchrist, "The Financial Accelerator and the Flight to Quality," *Review of Economics and Statistics* 78 (February 1996), 1–15. <http://www.jstor.org/stable/pdf/2109844/pdf>
- Douglas Diamond and Philip Dybvig, "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy* 91 (June 1983), 401–419. <http://www.jstor.org/stable/pdf/1837095/pdf>
- Bengt Holmström and Jean Tirole, "Private and Public Supply of Liquidity," *Journal of Political Economy* 106 (February 1998), 1–40. www.jstor.org/stable/pdf/10.1086/250001.pdf
- Gary Gorton and Andrew Metrick, "Securitized Banking and the Run on Repo," *Journal of Financial Economics* 104 (June 2012), 425–451. <http://dx.doi.org/10.1016/j.jfineco.2011.03.016>
- *Victoria Ivashina and David S. Scharfstein, "Bank Lending During the Financial Crisis of 2008," *Journal of Financial Economics* 97 (September 2010), 319–338. <http://dx.doi.org/10.1016/j.jfineco.2009.12.001>
- *Gabriel Chodorow-Reich, "The Employment Effects of Credit Market Disruptions: Firm-Level Evidence From the 2008-9 Financial Crisis," *Quarterly Journal of Economics* 129 (February 2014), 1–59. <http://dx.doi.org/10.1093/qje/qjt031>
- *Atif Mian and Amir Sufi, "What Explains the 2007-2009 Drop in Employment?" *Econometrica* 82 (November 2014), 2197–2223. Sections 0-2 only. <https://www.jstor.org/stable/pdf/43616911.pdf>

X. International Economics (time permitting)

Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics* (Cambridge: MIT Press, 1996), chapters 2 and 3.

Rabah Arezki, Valerie A. Ramey, and Liugang Sheng, “News Shocks in Open Economies: Evidence from Giant Oil Discoveries,” *Quarterly Journal of Economics*, 132 (February 2017): 103–155. <https://doi.org/10.1093/qje/qjw030>

Pierre-Olivier Gourinchas and Olivier Jeanne, “Capital Flows to Developing Countries: The Allocation Puzzle,” *Review of Economic Studies* 80 (October 2013), 1484–1515. <http://dx.doi.org/10.1093/restud/rdt004>

Ricardo Caballero, Emmanuel Farhi and Pierre-Olivier Gourinchas, “An Equilibrium Model of ‘Global Imbalances’ and Low Interest Rates,” *American Economic Review* 98 (March 2008), 358–393. <http://www.jstor.org/stable/pdf/29729975/pdf>

Maurice Obstfeld, “Does the Current Account Still Matter?” *American Economic Review* 102 (May 2012), 1–23. www.jstor.org/stable/pdf/23245498.pdf

Jay Shambaugh, “The Euro’s Three Crises,” *Brookings Papers on Economic Activity*, 2012 (Spring), 157–211. <http://www.jstor.org/stable/pdf/23287217/pdf>

XI. The Looming Fiscal Crisis (time permitting)

David Romer, *Advanced Macroeconomics*, fifth edition, “Empirical Application: Is U.S. Fiscal Policy on a Sustainable Path?” 666–669.

Alan J. Auerbach, William G. Gale, Aaron Krupkin, “The Federal Budget Outlook: We Are Not Winning,” unpublished paper, University of California, Berkeley, July 2018. <https://eml.berkeley.edu/~auerbach/AGK%207.18.pdf>