THE ROBERT DAY SCHOOL
CLAREMONT McKENNA COLLEGE

Economics 196 – Advanced Macroeconomics
Fall 2014 Syllabus

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Office Hours: M/W 1:00 – 3:00, or by appointment

Course	Lecture Time	Final Exam
Econ 196, Sec 1	M/W 11:00am-12:15pm	take home

Textbook and Required Readings
Romer, *Advanced Macroeconomics*, fourth edition, McGraw-Hill
Various Academic Journal Articles (posted on Sakai)

I have taken care to limit the reading in hopes that this will encourage students to read carefully and consistently. The schedule below lists readings for each lecture (**Romer** *X.y* refers to chapter *X*, section *y*.) I recommend reading the textbook sections *after* the lecture with which they are listed. In this way, the lecture will provide a guided intro to the terms and methods of the topic at hand and the textbook will serve to both solidify and expand on the lessons from lecture.

Course Description
Intermediate Macroeconomic Analysis (Econ 102) developed students' ability to read and understand macroeconomic journalism and current events. This course will enable students to engage with macroeconomic research. We will learn the analytic tools of modern macroeconomics, including the workhorse models used to understand economic growth, business cycles, unemployment, consumption and investment spending, and monetary and fiscal policy. The main difference is that these macroeconomic models are built on models of the behavior of firms and households (micro-foundations) rather than ad-hoc reasoning about aggregates. We will also review empirical evidence on many of these models and discuss major debates in the field.

Prerequisites

Econ 101, 102, 125

Learning Objectives

The goals of this course are to enable students to critically read and understand modern macroeconomic research, to assess macroeconomic research, and to communicate these assessments to others both verbally and in writing.

These goals first and foremost require familiarity with common modeling techniques, the historical debates in macroeconomics, and relevant empirical evidence. Problem sets will afford students the opportunity to practice the relevant analytic skills developed in lecture including mathematical analysis, empirical analysis, and the logical application of such techniques to reasoning about particular questions. Students will have several opportunities to read important research in the field. There will be five roundtables during which we discuss half-a-dozen articles of which students will prepare a summary. Second, students will write a term paper. Because the field of macroeconomics is broad and the techniques are complex, we do not have time to delve deeply into subfields and particular questions in this one semester course. The paper is an opportunity to delve more deeply into a particular literature; it is the vehicle by which students will apply the general skills learned in the course to a topic of particular interest.

Grading Criteria:

7 Problem Sets (may be completed in pairs):	30%
1 Take-Home Final:	20%
Participation in roundtables:	10%
5 Written Roundtable Summaries:	20%
Lit Review:	20%

Policies

Problem Sets
Problem sets will be posted on the course website hosted on Sakai. The due dates are noted on your syllabus and will be repeated on the assignment sheet. Problem sets are to be turned in either in hard copy to the folder on my office door or in electronic copy to your dropbox on Sakai. Please do not email them to me directly. Problem sets will variously contain analytic questions drawn from your textbook, data questions of my design, and short answer questions. All three types of analysis—analytical, empirical, and verbal—are an important part of your work. I reserve the right to adjust due dates to accommodate scheduling adjustments. I will always give you at least one week between the posting of an assignment and its due date.

Collaboration
Students may collaborate with, at most, one other student on problem sets. In this case, one problem set may be handed in with both students' names written on the finished problem set. Both students will receive the same grade. **Warning: be sure you each understand the entirety of the material as you will be responsible for it on the final exam.**

Legibility
Grading papers and exams is repetitive at best and can be a frustrating task when papers are messy. Be kind to me by making your assignments legible. Problem sets need not be typed but points may be lost due to illegible handwriting, poorly organized answer sheets, or other obstacles to grading. I always try to search for the hidden glow of understanding and award as many points as possible, but please do not lead me on a treasure hunt across your assignment in search of your train of thought. If your initial write-up is messy, recopy to a clean sheet. Such reiteration will not only please me but also further your understanding through repetition and help you to catch mistakes.

Grading Guidelines
Guidelines for the oral paper summaries and the term paper are available on Sakai in separate documents, *Roundtable Guidelines* and *Term Paper Guidelines*.

Exams
There is no midterm exam. The final exam will be a take-home exam. It will be available starting the day after the last relevant material has been covered (Thursday December 11, 9am) and must be turned in by the end of our registrar-scheduled final slot (Monday December 15, Noon). Students may check it out to begin at any time and will have 24 hours to complete and return it. The exam consists of a few analytical problems, an empirical exercise, and a few short answer questions, much like a problem set. Unlike a problem set, **the final must be completed individually**.

Availability
Email: I am generally available during normal business hours and try to respond quickly to email requests. However, I cannot always respond immediately, even during the day. Moreover, I am not on call at all hours so I suggest you do not rely completely on receiving a swift response to your urgent midnight query. Plan ahead.

Office Hours: I pledge to be in my office and available to answer your questions during these times. On the rare occasion that I must cancel, I will notify the class via email. If these times are consistently difficult for you to make, we will find another time to meet.

Disability
If you have any problems with the terms of this syllabus due to a documented disability please let me know within the first two weeks of class. Note if you require alternative arrangements for the exams I must be contacted, at your instigation, by the Dean of Students Office but it is your responsibility to coordinate with me about the time and place of your exam at least 2 weeks prior to the exam.

Extra Credit
There is no extra credit in this course.

Academic Dishonesty
Please be aware that any incidence of academic dishonesty (plagiarism, cheating, etc.) will be taken **extremely** seriously. All cases will be reported to the Academic Standards Committee immediately. When in doubt as to whether a certain behavior is acceptable, *ask me first*.

Course Outline and Assignment Schedule

I. Long-Run Economic Growth

[1] W 9/3   Syllabus, Course Overview, and Ramsey Growth Model Setup
Reading: **Romer** 1.1, 2.0, 2.1

[2] M 9/8   Mathematical Techniques and Ramsey Model Solution
Reading: **Romer** 2.2, 2.3, 2.5

[3] W 9/10   Ramsey Model Analysis and Extensions
Reading: **Romer** 2.6, 2.7

Problem Set 1 due: Thursday September 11th, 11:59pm.

[4] M 9/15   Levels Accounting and Proximate Determinants
Reading: **Hall, Robert E. and Jones, Charles I. 1999**. "Why Do Some Countries Produce so Much More Output per Worker than Others?" *Quarterly Journal of Economics* (February): 83-116.

Romer 4.2, 4.3

[5] W 9/17   Complex Causal Structures and Deep Determinants
Reading: **Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2001.** "Colonial Origins of Comparative Development: an Empirical Investigation." *American Economic Review* 91, 1369-1401.

Romer 4.4, 4.5

Problem Set 2 due: Thursday September 18th, 11:59pm.

[6] M 9/22   Roundtable on Economic Growth I: social capital
Readings:
   A1. Nunn, Nathan. (2008) "The Long-Term Effects of Africa's Slave Trades" *Quarterly Journal of Economics*.
   A2. Engerman, Stanley and Kenneth Sokoloff. (2002) "Factor Endowments, Inequality, and Paths of Development Among New World Economies." *NBER working paper*.
   A3. Easterly, William and Ross Levine. (2003) "Tropics, germs, and crops: how endowments influence economic development" *Journal of Monetary Economics*.
   B1. Ashraf, Quamrul and Oded Galor. (2013) "The Out of Africa Hypothesis, Human Genetics Diversity, and Comparative Economic Development" *American Economic Review*.
   B2. Chanda, Areendam, C. Justin Cook, and Louis Putterman. (2014) "Persistence of Fortune: Accounting for Population Movements, There was no Post-Columbian Reversal." *American Economic Journal: Macroeconomics*.

B3. Bisin, Alberto and Thierry Verdier. (2000) "Beyond the Melting Pot: Cultural Transmission, Marriage, and the Evolution of Ethnic and Religious Traits." *Quarterly Journal of Economics*

Growth I Readings Summary due: in class Monday September 22nd

[7] W 9/24   Special Topics: Unified Growth Theory
Reading: **Galor, Oded. 2004.** "From Stagnation to Growth: Unified Growth Theory" in Philippe Aghion and Steven N. Duraluf, eds., *Handbook of Economic Growth*, Volume 1A, 171-293.

              Read thoroughly: sections 1, 3 – 4.1.1 (pages 1-3, 41 - 57).
              Skim: section 2 (pages 4-40).

[8] M 9/29   Roundtable on Economic Growth II: sources of TFP
Readings:
    1. Acemoglu, Daron and Fabrizio Zilibotti. (2001) "Productivity Differences." *Quarterly Journal of Economics*
    2. Bloom, Nick and John van Reenan. (2007) "Measuring and Explaining Management Practices Across Firms and Countries." *Quarterly Journal of Economics*
    3. Hsieh, Chang-Tai and Peter Klenow (2009) "Misallocation and Manufacturing TFP in China and India" *Quarterly Journal of Economics*
    4. Schmitz Jr., James A. (2005) "What Determines Productivity? Lessons from the Dramatic Recovery of the U.S. and Canadian Iron Ore Industries Following Their Early 1980s Crisis" *Journal of Political Economy*
    5. Lagakos, David. (2009) "Superstores or Mom and Pops? Technology Adoption and Productivity Differences in Retail Trade." *FRB Minneapolis Staff Report*

Growth II Readings Summary due: in class Monday September 29th

II.   Business Cycles

[8] W 10/1   Measuring Business Cycles: Filtering, Correlations, and Real-Time Data
Reading: **Romer** 5.1

[9] M 10/6   Basic RBC Model: rationale and setup
Reading: **Romer** 5.2 - 5.4

              Stadler, George W. 1994. "Real Business Cycles," *Journal of Economic Perspectives* 32(4): 1750-1783.

[10] W 10/8   Basic RBC Model: setup and solution
Reading: **Romer** 5.5 – 5.7

Problem Set 3 due: Thursday October 9th, 11:59pm

[11] M 10/13   Basic RBC Model: calibration and extensions
Reading: **Romer** 5.8

[12] W 10/15   Price Rigidities and Market Imperfections
Reading: **Romer** 5.10, 6.1, 6.2

               Mankiw, N. Gregory. 1989. "Real Business Cycles: A New Keynesian
               Perspective." *Journal of Economic Perspectives* 3 (Summer): 79-90.

Problem Set 4 due: Thursday October 16th, 11:59pm

[--] M 10/20   *No Class: Fall Break*

[14] W 10/22   Microfoundations of Incomplete Nominal Adjustment
Reading: **Romer** 6.6 – 6.7

Problem Set 5 due: Thursday October 23rd, 11:59pm

[15] M 10/27   New Keynesian Theories of Price Stickiness
Reading: **Romer** 7.0, 7.5

[16] W 10/29   Roundtable on Price Rigidity
Readings:
    A1. Levy, Daniel, Mark Bergen, Shantanu Dutta, and Robert Venable (1997) "The
        Magnitude of Menu Costs: Direct Evidence From Large U.S. Supermarket
        Chains" *Quarterly Journal of Economics*
    A2. Chevalier, Judith, Anil Kashyap, and Peter Rossi (2003) "Why Don't Prices Rise
        During Periods of Peak Demand? Evidence from Scanner Data" *American
        Economic Review*
    A3. Lach, Saul and Daniel Tsiddon (2007) "Small Price Changes and Menu Costs"
        Managerial and Decision Economics
    B1. Bils, Mark and Peter Klenow (2004) "Some Evidence on the Importance of
        Sticky Prices" *Journal of Political Economy*
    B2. Hobijn, Bart, Federico Ravenna, and Andrea Tambalotti (2006) "Menu Costs at
        Work: Restaurant Prices and the Introduction of the Euro" *Quarterly Journal
        of Economics*
    B3. Klenow, Peter and Oleksiy Kryvtsov (2008) "State-Dependent or Time-
        Dependent Pricing: Does it Matter for Recent U.S. Inflation?" *Quarterly
        Journal of Economics*

III.   Unemployment

[17] M 11/3   Shapiro-Stiglitz Efficiency-Wage Theory setup and methods
Reading: **Romer** 10.1, 10.4

[18] W 11/5   Shapiro-Stiglitz Efficiency-Wage Theory solution and analysis

[19] M 11/10   Testing Theories of Unemployment
Reading: **Romer** 10.8

[20] W 11/12   Mortensen-Pissarides Search and Matching Model setup
Reading: **Romer** 10.6

Problem Set 6 due: Thursday November 13th, 11:59pm

[21] M 11/17   Mortensen-Pissarides Search and Matching Model solution
Reading: **Romer** 10.7

[22] W 11/19   The Evidence on Matching Models: a close reading of Shimer 2005
Reading: **Shimer, Robert. 2005.** "The Cyclical Behavior of Equilibrium
                Unemployment and Vacancies." *American Economic Review.* 95(1): 25-
                49.

Problem Set 7 due: Thursday November 20th, 11:59pm

[23] M 11/24   Roundtable on Unemployment
Readings:

   A1.   Akerlof, George and Janet Yellen (1990) "The Fair Wage-Effort Hypothesis
         and Unemployment" *Quarterly Journal of Economics*
   A2.   Lindbeck, Assar and Dennis Snower (1986) "Wage Setting, Unemployment,
         and Insider-Outsider Relations" *AEA Papers and Proceedings*
   A3.   Gottfries, Nils (1992) "Insiders, Outsiders, and Nominal Wage Contracts"
         Journal of Political Economy
   B1.   Hall, Robert (2005) "Employment Fluctuations with Equilibrium Wage
         Stickiness" *American Economic Review*
   B2.   Hagendorn, Marcus and Iourii Manovskii (2008) "The Cyclic Behavior of
         Equilibrium Unemployment and Vacancies Revisited" *American Economic
         Review*
   B3.   Pissarides, Christopher (2009) "The Unemployment Volatility Puzzle: Is
         Wage Stickiness the Answer?" *Econometrica*

[--] W 11/26   *No Class: Thanksgiving*

[24] M 12/1   The State of Macro: a close reading of Blanchard 2008
Reading: **Blanchard, Olivier. 2008.** "The State of Macro" *NBER Working Paper
                14259.*

IV.   Consumption
[25] W 12/3   The Permanent Income Hypothesis of Consumption Spending
Reading: **Romer** 8.0, 8.1, 8.2

[21] M 12/8   Extending the PIH: Risk, Precautionary Saving, and Liquidity Constraints
Reading: **Romer** 8.5, 8.6

[21] W 12/10 Roundtable on Consumption Behavior
Readings:

   A1. Caroll, Christopher (1997) "Buffer-Stock Saving and the Life Cycle/Permanent
        Income Hypothesis" *Quarterly Journal of Economics*
   A2. Gourinchas, Pierre-Olivier and Jonathan Parker (2002) "Consumption over the
        Life-Cycle" *Econometrica*
   A3. Gross, David and Nicholas Souleles (2002) "Do Liquidity Constraints and
        Interest Rates Matter for Consumer Behavior? Evidence from Credit Card
        Data" *Quarterly Journal of Economics*
   B1. Paxson, Christina (1993) "Consumption and Income Seasonality in Thailand"
        Journal of Political Economy
   B2. Hsieh, Chang-Tai (2003) "Do Consumers React to Anticipated Income Changes?
        Evidence from the Alaska Permanent Fund" *American Economic Review*
   B3. Johnson, David, Jonathan Parker, and Nicholas Souleles (2006) "Household
        Expenditure and the Income Tax Rebates of 2001" *American Economic
        Review*

Final Exam (24-hour take home)
        Available earliest: Thursday December 11th, 9am
        Due latest: Monday December 15th, Noon

Course Paper due: Thursday December 18th, 5pm

Summary of Due Dates:

Thursday	9/11	Problem Set 1	11:59pm
Thursday	9/18	Problem Set 2	11:59pm
Monday	9/22	Growth I Roundtable Summary	in class
Monday	9/29	Growth II Roundtable Summary	in class
Thursday	10/9	Problem Set 3	11:59pm
Thursday	10/16	Problem Set 4	11:59pm
Thursday	10/23	Problem Set 5	11:59pm
Wednesday	10/29	Price Rigidity Roundtable Summary	in class
Thursday	11/13	Problem Set 6	11:59pm
Thursday	11/20	Problem Set 7	11:59pm
Monday	11/24	Unemployment Roundtable Summary	in class
Wednesday	12/10	Consumption Roundtable Summary	in class

24-hour Take Home Final Exam to be taken between
Thursday 12/11 9am and Monday 12/15 Noon

Thursday	12/18	Lit Review	11:59pm