

MSc in Economics – Macroeconomics

First quarter

Michaelmas Term 2007

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Office hours: Wednesday, 10:00 – 12:00

Lectures: Thursday, 13:00, 3025.

Tutorials: Friday, 10:00, 3025.

Teaching assistant: Agustín Bénétrix, benetria(at)tcd.ie.

Course description

This quarter course provides for an exposition of some small-scale macroeconomic models. Therefore, we do not cover fully articulated dynamic general equilibrium models. Instead, we focus on key interactions among some macroeconomic variables. We will cover optimal consumption, the theory of investment, the time inconsistency problem, and fiscal policy and the Ricardian equivalence debate. The first two topics emphasise microeconomic foundations. We will focus on full derivations as well as some intuition about the essential results.

Assessment

There will be an exam on the material covered during the first two quarters of the course, and another exam on the material covered during the last two quarters of the course. The first exam takes place early January and counts for 35% of the total grade for the course. Further information will be provided during the course.

Tutorials

Tutorials are an integral part of the course and provide an excellent opportunity to study specific issues in greater depth. Problem sheets will be posted on my webpage weekly and answers will be discussed during tutorials. Problem answers must be handed in at the **beginning** of the tutorial on Friday (10:00), will be graded and count towards the final grade for the course. Problem answers handed in late will be returned a mark of zero.

Readings

This quarter is based on selected chapters from two textbooks:

Romer, D. (2006), *Advanced Macroeconomics*, 3rd edition, McGraw-Hill

Obstfeld, M. and Rogoff, K. (1996), *Foundations of International Macroeconomics*, MIT Press

We will be using only specific chapters, so I do not recommend that students necessarily buy any of the books. Copies are available from the library. Starred readings in the course outline below are mandatory. Further optional readings and essential references are provided for interested readers.

Course outline

1. Optimal consumption

* Romer (2006), chp. 7.

* Browning, M. and Crossley, T. (2001), The life-cycle model of consumption and saving, *Journal of Economic Perspectives* 15(3), 3-22

Friedman, M. (1957), *A Theory of the Consumption Function*, Princeton University Press

Modigliani, F. and Brumberg, R. (1954), Utility analysis and the consumption function: an interpretation of cross-section data, in Kurihara, K. (ed), *Post-Keynesian Economics*, 388-436, Rutgers University Press

Hall, R. (1978), Stochastic implications of the life cycle-permanent income hypothesis: theory and evidence, *Journal of Political Economy* 86, 971-987

2. The theory of investment

* Romer (2006), chp. 8, 386-413.

* Hayashi, F. (1982), Tobin's q and average q: a neoclassical interpretation", *Econometrica* 50, 213-224.

Caballero, R. (1999), Aggregate investment, in Taylor, J. and Woodford, M. (eds), *Handbook of Macroeconomics*, 813-862, Elsevier Science

Dixit, A. and Pindyck, R. (1994), *Investment under Uncertainty*, Princeton University Press

3. The time inconsistency problem

* Obstfeld and Rogoff (1996), 634-647.

* Bernanke, B. (2004), *What have we learned since October 1979?*, Conference on Reflections on Monetary Policy 25 Years after October 1979, Federal Reserve Bank of St Louis

Chari, V. and Kehoe, P. (2006), Modern macroeconomics in practice: how theory is shaping policy, Staff Report 376, Federal Reserve Bank of St Louis

Kydland, F. and Prescott, E. (1977), Rules rather than discretion: the inconsistency of optimal plans, *Journal of Political Economy* 85, 473-492.

Barro, R. and Gordon, D. (1983a), Rules, discretion and reputation in a model of monetary policy, *Journal of Monetary Economics* 12, 101-121.

Barro, R. and Gordon, D. (1983b), A positive theory of monetary policy in a natural-rate model, *Journal of Political Economy* 91, 589-610.

Rogoff, K. (1985), The optimal degree of commitment to an intermediate monetary target, *Quarterly Journal of Economics* 100, 1169-1189.

Walsh, C. (1995), Optimal contracts for central bankers, *American Economic Review* 85, 150-167.

4. Fiscal policy and Ricardian equivalence

* Romer (2006), chp. 11, 559-577.

* Barro, R. (1974), "Are government bonds net wealth?", *Journal of Political Economy* 82, 1095-1117.

* Barro, R. (1979), "On the determination of the public debt", *Journal of Political Economy* 87, 940-971.

Tabellini, G. and Alesina, A. (1990), "Voting on the budget deficit", *American Economic Review* 80, 37-49.

Alesina, A. and Drazen, A. (1991), "Why are stabilizations delayed?", *American Economic Review* 81, 1170-1188.

Further information

Further information, important announcements and further readings will be posted on my webpage at <http://www.tcd.ie/economics/staff/waltis>.