

International Economics Development Economics

Academic year 2019-2020

Macroeconomics A

EI056 - Autumn - 6 ECTS

Wednesday 10h15 - 12h00

Course Description

The class is the first half of the macroeconomics sequence. It covers the major issues in macroeconomics. In addition to developing the economic intuition, it covers the the workings of major macroeconomic models that students will need in their research.

We start with long-term growth, and then stylized models of economic fluctuations and stabilization policy. We then work through the general equilibrium optimizing models that are the core of macroeconomics, gradually building them up to analyze the conduct of policy. The final part of the course covers financial markets and the banking sector, as well as labor market issues.

As conducting research in macroeconomics requires a familiarity with technical tools, the course entails a fair amount of mathematical materials. The slides for each class will be made available shortly before the lecture, so students can focus their attention on understanding the concepts covered. A technical note will also be made available with the detailed steps of the most technical sections. Weekly review sessions cover the methods used in the class in more details.

The final grade for the course is calculated on the basis of a mid-term exam (35%), a final exam (35%) and two problem sets (15% each). Problem sets are aimed at getting students to use the tools developed in class, while the exams focus more on economic intuition.

> PROFESSOR

[Cédric Tille](#)

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> ASSISTANT

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Syllabus

Readings with a (*) are mandatory and are in the polycopié and on the class Moodle page. The remaining material is optional.

The course will rely on 3 textbooks:

Michael Burda and Charles Wyplosz, *Macroeconomics: A European Text*. 6th edition.

This book provides a non-technical approach of the points covered in the course. I recommend reading the sections of this book first, before going to the more technical textbooks.

David Romer, *Advanced Macroeconomics*, 4th edition.

This book covers the issues in a more technical way.

Carl Walsh, *Monetary Theory and Policy*, 3rd edition.

The book is focused on issues of money and monetary policy, covering them in a technical way. In readings from Romer and Walsh, focus on the intuition and the arguments as opposed to figuring out all the technical details.

1. Introduction to macroeconomics: patterns and the evolution of thought

* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 1, 2 (2.1 to 2.3), and 20 (20.1 to 20.5).

* Chugh *Modern Macroeconomics*, 1st edition

Chapter 10.

Mankiw, Gregory (2006), "The Macroeconomist as a Scientist and Engineer," NBER Working Paper, No 12349.

<http://www.nber.org/papers/w12349.pdf>

Woodford, Michael (1999). "Revolution and Evolution in Twentieth-Century Macroeconomics".

<http://www.columbia.edu/%7Emw2230/macro20C.pdf>

2 Economic growth

* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 3, 4, and 20.9.

Romer *Advanced Macroeconomics*

Chapters 1 (1.1 to 1.7).

Aghion, Philippe, and Peter Howitt (2006). "Appropriate Growth Policies: A Unifying Framework" *Journal of the European Economic Association* 4, pp. 269-314.

https://dash.harvard.edu/bitstream/handle/1/4554121/aghion_appropriategrowth.pdf?sequence=2

3 Stylized (non-optimizing) approach of macroeconomics

3.1 The IS-LM and AS-AD framework

* Burda and Wyplosz *Macroeconomics: A European Text*.

Chapters 10, 12, and 13 (13.1 to 13.2 plus 13.4)

Note: the book considers the case of open economies, while the class considers a closed economy (as open economies are covered in the spring 2020 course).

3.2 Time consistency and operating procedures of economic policy

- * Walsh, *Monetary Theory and Policy*
Chapters 6 (6.1 to 6.2.1), 7 (7.1 to 7.2, 7.3.2, and 7.3.4 to 7.3.5), and 11 (11.1 to 11.3).

4 Dynamic optimizing models

4.1 The stochastic growth model

- * Burda and Wyplosz *Macroeconomics: A European Text*.
Chapters 7 (7.1 to 7.5), and 8.
- * Romer *Advanced Macroeconomics*
Chapters 2 (2.1 to 2.6), and 9 (9.1 to 9.4).

4.2 The overlapping generations model

- * Romer *Advanced Macroeconomics*
Chapters 2 (2.8 to 2.12).
- * Weil, Philippe (2008). "The Overlapping Generations: The First Jubilee", *Journal of Economic Perspectives*, pp. 115-134.
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.22.4.115>

4.3 The real business cycles model

- * Romer *Advanced Macroeconomics*
Chapters 5 (5.1 to 5.4, 5.6 to 5.8).
 - * Christiano, Lawrence, Martin Eichenbaum, and Mathias Trabandt (2018). "On DSGE Models", *Journal of Economic Perspectives* 32 (3), pp. 113-140.
<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.113>
 - * Kehoe, Patrick, Virgiliu Midrigan, and Elena Pastorino (2018). "Evolution of Modern Business Cycle Models: Accounting for the Great Recession", *Journal of Economic Perspectives* 32 (3), pp. 141-166.
<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.141>
- Rebelo, Sergio (2005). "Real Business Cycles Models: Past, Present, and Future", NBER working paper 11401.
<http://www.nber.org/papers/w11401.pdf>

4.4 Monetary policy in micro-founded models

- * Walsh, *Monetary Theory and Policy*
Chapters 1, 8 (8.1 to 8.4.4).
- Romer *Advanced Macroeconomics*
Chapters 7 (7.1 to 7.2, 7.8 to 7.9).

* Gali, Jordi (2018). "The State of New Keynesian Economics: A Partial Assessment", *Journal of Economic Perspectives* 32 (3), pp. 87-112.
<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.87>

Eggertsson, Gauti, Neil Mehrotra, and Jacob Robbins (2017). "A Model of Secular Stagnation: Theory and Quantitative Evaluation", NBER working paper 23093.
<http://www.nber.org/papers/w23093>

Gali, Jordi (2017). "Monetary Policy and Bubbles in a New Keynesian Model with Overlapping Generations", CREI working paper.
http://www.crei.cat/wp-content/uploads/2018/01/nk_bubbles_dec2017.pdf

Gali, Jordi (2007). "The New-Keynesian Approach to Monetary Policy Analysis: Lessons and New Directions", in *The Science and Practice of Monetary Policy Today*, Volker Wieland ed.

Gürkaynak, Refet, and Cédric Tille (2017). "DSGE Models in the Conduct of Policy: Use as intended", Voxeu Ebook.
<https://voxeu.org/content/dsge-models-conduct-policy-use-intended>

Kaplan, Greg, and Giovanni Violante (2018). "Microeconomic Heterogeneity and Macroeconomic Shocks", *Journal of Economic Perspectives* 32 (3), pp. 167-194.
<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.167>

Woodford, Michael (2018). "Monetary Policy when Planning Horizons are Finite", NBER working paper 24692.
<http://www.nber.org/papers/w24692>

5 Fiscal policy and government debt

* Burda and Wyplosz *Macroeconomics: A European Text*.
Chapters 7 (7.5), and 17.

* Romer *Advanced Macroeconomics*
Chapters 12.

* Alesina, Alberto, Carlo Favero, et Francesco Giavazzi (2019). "Effects of austerity: expenditures- and tax-based approaches", *Journal of Economic Perspectives* 33(2), pages 141-162.
<https://www.aeaweb.org/articles?id=10.1257/jep.33.2.141>

Cohen-Setton, Jérémie, Egor Gornostay, et Colombe Ladreit (2019). "Aggregate Effects of Budget Stimulus: Evidence from the Large Fiscal Expansions Database", Peterson Institute for International Economics Working Paper 19-12.
<https://www.piie.com/publications/working-papers/aggregate-effects-budget-stimulus-evidence-large-fiscal-expansions>

* Ramey, Valerie (2019). "Ten years after the financial crisis: what have we learned from the renaissance in fiscal research?", *Journal of Economic Perspectives* 33(2), pages 89-114.
<https://www.aeaweb.org/articles?id=10.1257/jep.33.2.89>

6 Money and inflation, and financial markets

* Burda and Wyplosz *Macroeconomics: A European Text*.
Chapters 6 (6.1 to 6.2 included), 9 (9.1 to 9.3 included), and 14.

* Walsh, *Monetary Theory and Policy*
Chapters 10 (10.1-10.3).

Greenwood, Robin and David Scharfstein (2013). "The Growth of Finance", *Journal of Economic Perspectives*, 27, 3-28.
<https://www.aeaweb.org/articles?id=10.1257/jep.27.2.3>

7 The banking sector and the financial accelerator

* Burda and Wyplosz *Macroeconomics: A European Text*.
Chapters 9 (9.5).

* Walsh, *Monetary Theory and Policy*
Chapters 10 (10.4-10.7).

* Diamond, Douglas, and Philip Dybvig (1983). "Bank Runs, Deposit Insurance and Liquidity", *Journal of Political Economy*, pp 401-19
<https://www.jstor.org/stable/pdf/1837095.pdf?refreqid=excelsior%3Ab3e76e5c88f96d72c54a68f479738216>

* Gertler, Mark, and Simon Gilchrist (2018). "What Happened: Financial Factors in the Great Recession", *Journal of Economic Perspectives* 32 (3), pp. 3-30.
<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.3>

* Mian, Atif, and Amir Sufi (2018). "Finance and Business Cycles: The Credit-Driven Household Demand Channel", *Journal of Economic Perspectives* 32 (3), pp. 31-58.
<https://www.aeaweb.org/articles?id=10.1257/jep.32.3.87>

Bernanke, Ben, and Mark Gertler (1995). "Inside the Black Box: The Credit Channel of Monetary Policy Transmission" *Journal of Economic Perspectives*, 9, 27-48.
<https://www.aeaweb.org/atypon.php?doi=10.1257/jep.9.4.27>

Gertler, Mark, Nobuhiro Kiyotaki, and Andrea Prestipino (2017), "A Macroeconomic Model with Financial Panics", NBER working paper 24126.
<http://www.nber.org/papers/w24126>

Mian, Atif, Amir Sufi, and Emil Verner (2017). "Household Debt and Business Cycles Worldwide", *Quarterly Journal of Economics* 132 (4), pp. 1755-1817.
<https://academic.oup.com/qje/article/132/4/1755/3854928>

8 Labor market and unemployment

* Burda and Wyplosz *Macroeconomics: A European Text*.
Chapters 5.

* Romer *Advanced Macroeconomics*
Chapters 10 (10.1 to 10.4).

Olivier Blanchard, *The Economics of Unemployment. Shocks, Institutions, and Interactions.*, mimeo.
<http://econ-www.mit.edu/files/708>

Daly, Mary, Bart Hobijn, Ayşegül Şahin and Robert G. Valletta (2012). "A Search and Matching Approach to Labor Markets: Did the Natural Rate of Unemployment Rise?," *Journal of Economic Perspectives*, 3-26.
<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.26.3.3>