

**SYLLABUS**

**Readings:**

The reference books for this course are

L. Ljungqvist and T. J. Sargent, *Recursive Macroeconomic Theory*. Second edition. The MIT Press, 2004.

N. L. Stokey and R. E. Lucas with E. C. Prescott, *Recursive Methods in Economic Dynamics*. Harvard University Press, 1989.

Both are important references and are probably worth buying now for future use. Do not worry if they seem very difficult to you at this stage.

Copies of some of the other readings will be available on the course web site:  
<http://www.econ.umn.edu/~tkehoe/classes/8105-05.html>.

**Office Hours:**

Wednesday 9:00 am – 11:00 am. (There is a sign-up sheet on my door.)

Walter Heller Hall 1168, 612-625-1589 (Please do not call me at home; send me an e-mail message at [tkehoe@econ.umn.edu](mailto:tkehoe@econ.umn.edu).)

**Assignments:**

There will be three problem sets, a midterm, and a final. The midterm will be given during a review session. In addition to analytical work, each problem set will require you to write a computer program in Matlab, Fortran, Gauss, or some such language. All assignments must be completed in order to receive a final grade for the course.

**Teaching Assistant:**

The teaching assistant is Anderson Schneider, 1017 Heller Hall, 612-625-6520, [als@econ.umn.edu](mailto:als@econ.umn.edu). His office hours are on Thursday, 12:20 pm – 2:20 pm.

**Grading:**

Each problem set mark will be counted once and the final will be counted twice, providing a total of five marks. The lowest of these marks will be dropped and the remaining marks averaged. Notice that this means that, if the lowest mark is that of the final, its weight will be halved, but it will not be completely dropped. The midterm will be counted only if doing so improves the overall grade.

**Late Policy:**

Any late assignment will be penalized 10 (out of 100) points for each class period it is late, up to a maximum of 40 points.

**Cooperation on Assignments:**

Students are permitted (and encouraged) to discuss the answers to problem sets together. Copying from another student's answers is not allowed.

**CLA Guidelines for Defining Scholastic Dishonesty:**

“Scholastic dishonesty is any act that violates the rights of another student with respect to academic work or that involves misrepresentation of a student's own work. Scholastic dishonesty includes (but is not limited to) cheating on assignments or examinations, plagiarizing (misrepresenting as one's own anything done by another), inventing or falsifying research or other findings with the intent to deceive, submitting the same or substantially similar papers (or creative work) for more than one course without consent of all instructors concerned, depriving another of necessary course materials, and sabotaging another's work.” (*CLA Classroom, Grading & Examination Procedures*, <http://www.class.umn.edu:81/cgep/index.html>.)

Penalties for scholastic dishonesty of any kind in any course will entail an “F” for the particular assignment/exam or the course. Please check <http://www.osai.umn.edu> for information on Student Academic Misconduct.

**List of Topics:****1. Introduction to Dynamic General Equilibrium**

T. J. Kehoe, “Intertemporal General Equilibrium Models,” in F. Hahn, editor, *The Economics of Missing Markets, Information, and Games*. Claredon Press, 1989, 363-393.

Stokey-Lucas-Prescott, Chapters 2, 3, 4.

## 2. Overlapping Generations Economies

P. A. Diamond, "National Debt in a Neo-Classical Growth Model," *American Economic Review*, 55 (1965), 1126-1150.

T. J. Kehoe, "Intertemporal General Equilibrium Models," in F. Hahn, editor, *The Economics of Missing Markets, Information, and Games*. Clarendon Press, 1989, 363-393.

T. J. Kehoe and D. K. Levine, "Comparative Statics and Perfect Foresight in Infinite Horizon Economies," *Econometrica*, 53 (1985), 433-453.

T. J. Kehoe and D. K. Levine, "The Economics of Indeterminacy in Overlapping Generations Models," *Journal of Public Economics*, 42 (1990), 219-243.

D. Gale, "Pure Exchange Equilibrium of Dynamic Economic Models," *Journal of Economic Theory*, 6 (1973), 12-36.

G. D. Hansen, "The Cyclical and Secular Behaviour of the Labour Input: Comparing Efficiency Units and Hours Worked," *Journal of Applied Econometrics*, 8 (1993), 71-80.

Ljungqvist-Sargent, Chapter 9.

P. A. Samuelson, "An Exact Consumption Loan Model of Interest, With or Without the Social Contrivance of Money," *Journal of Political Economy*, 66 (1958), 467-482.

Stokey-Lucas-Prescott, Chapter 17.

N. Wallace, "The Overlapping Generations Model of Fiat Money," in J. H. Kareken and N. Wallace, editors, *Models of Monetary Economies*, Federal Reserve Bank of Minneapolis, 1980.

## 3. The Neoclassical Growth Model

T. J. Kehoe, "Calibrating the Growth Model."

F. E. Kydland and E. C. Prescott, "Time to Build and Aggregate Fluctuations," *Econometrica*, 50 (1982), 1345-1370.

R. E. Lucas, "On the Mechanics of Economic Development," *Journal of Monetary Economics*, 22 (1988), 3-42.

R. M. Solow, *Growth Theory: An Exposition*. Oxford: Clarendon Press, 1970.

#### **4. Dynamic Programming**

Ljungqvist-Sargent, Chapters 1, 3, 4.

Stokey, Lucas, Prescott, Chapters 5, 6, 8, 9.

#### **5. Depressions**

R. Bergoeing, P. J. Kehoe, T. J. Kehoe, and R. Soto, "A Decade Lost and Found: Mexico and Chile in the 1980s," *Review of Economic Dynamics*, 5 (2002), 166-205.

H. L. Cole and L. E. Ohanian, "The Great Depression in the United States From A Neoclassical Perspective," *Federal Reserve Bank of Minneapolis Quarterly Review*, 23 (1999), 2-24.

T. J. Kehoe and E. C. Prescott, "Great Depressions of the Twentieth Century," *Review of Economic Dynamics*, 5 (2002), 1-18.

#### **6. General Equilibrium with Enforcement Constraints**

T. J. Kehoe and D.K. Levine, "Debt-Constrained Asset Markets," *Review of Economic Studies*, 60 (1993), 865-888.

T. J. Kehoe and D.K. Levine, "Liquidity Constrained Markets versus Debt Constrained Markets," *Econometrica*, 69 (2001), 575-598.

D. Krueger and F. Perri, "Does Income Inequality Lead to Consumption Inequality? Evidence and Theory," University of Pennsylvania and New York University, 2003.

Ljungqvist-Sargent, Chapters 16-20.

**Please note: We will cover topics 1-4 for sure. We will not have time to do all of topics 5 and 6. I hope to cover at least one of these two topics.**