MACROECONOMIC THEORY **T. J. KEHOE**
ECON 8105 **SPRING 2005**

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.

Copies of some of the other readings will be available on the course web site: http://www.econ.umn.edu/~tkehoe/classes/8107-05.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.)

Assignments:

There will be four problem sets and a final. 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 Pricila Maziero, Walter Heller Hall 1272, 612- 624-9357, pricila@econ.umn.edu. Her office hours are Monday 10.30 am – 11.30 and Thursday 1:00 pm – 2:00.

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.

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.

Guidelines for Defining Scholastic Dishonesty:

The University Student Conduct Code defines scholastic dishonesty as follows:

Scholastic Dishonesty means plagiarizing; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; altering, forging, or misusing a University academic record; or fabricating or falsifying data, research procedures, or data analysis.

Scholastic dishonesty includes, but is not limited to, the description above. It could also be said that 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. Also included would be cheating on assignments or examinations, 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, 2004-2005*, p. 13.)

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 and Readings:

1. Overlapping Generations Economies

J. C. Conesa and C. Garriga, "Optimal Design of Social Security Reforms," Universitat Pompeu Fabra and Florida State University, 2004.

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*. Claredon 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.

2. Stochastic General Equilibrium

T. F. Cooley, editor, *Frontiers of Business Cycle Research*. Princeton University Press, 1995.

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

Ljungqvist-Sargent, Chapters 7-8, 12-15.

Stokey-Lucas-Prescott, Chapters 7-11, 15-16.

3. General Equilibrium with Enforcement Constraints and Private Information

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.

T. J. Kehoe, D. K. Levine, and E. C. Prescott, "Lotteries, Sunspots, and Incentive Constraints," *Journal of Economic Theory*, 107 (2002), 39-69.

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.

R. Rogerson, “Indivisible Labor, Lotteries, and Equilibrium,” *Journal of Monetary Economics*, 21 (1988), 3-16.

4. 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, “A Second Look at the U.S. Great Depression from a Neoclassical Perspective,” University of California, Los Angeles, 2004.

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

5. International Trade

C. Bajona and T. J. Kehoe, “On Dynamic Heckscher-Ohlin Models I: General Framework and Overlapping Generations,” University of Miami and University of Minnesota, 2005.

C. Bajona and T. J. Kehoe, “On Dynamic Heckscher-Ohlin Models II: Infinitely-Lived Consumers,” University of Miami and University of Minnesota, 2005.

R. Bergoeing and T. J. Kehoe, “Trade Theory and Trade Facts,” Federal Reserve Bank of Minneapolis, Staff Report 284, 2001.

P. R. Krugman, “Increasing Returns, Monopolistic Competition, and International Trade,” *Journal of International Economics*, 9 (1979), 469–479.

J. Ventura, “Growth and Interdependence,” *Quarterly Journal of Economics*, 112 (1997), 57-84.

A. Young, “Learning by Doing and the Dynamic Effect of International Trade,” *Quarterly Review of Economics*, 106 (1991), 369-406.