

SYLLABUS

Readings:

Useful 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.

I will also be discussing material from

T. J. Kehoe and E. C. Prescott, editors, *Great Depressions of the Twentieth Century*, Federal Reserve Bank of Minneapolis, 2007.

Copies of some of the other readings will be available on the intranet and on the course web site: <http://www.econ.umn.edu/~tkehoe/classes/CEMFI-11.html>.

Grading:

There will be six or seven problem sets and a final exam. In addition to analytical work, some problem sets will require you to write a computer program in Matlab, C++, Fortran, Gauss, or some such language. All assignments must be completed in order to receive a final grade for the course. The final grade for the course will be based 50 percent on the problem sets and 50 percent on the final exam.

Late Policy:

Any late problem will be penalized 10 (out of 100) points for each week that 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.

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*. 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.

3. The Neoclassical Growth Model

N. Kaldor, “Capital Accumulation and Economic Growth,” in F. A. Lutz and D. C. Hague, editors, *The Theory of Capital*, St. Martin's Press, 1961, 177–222.

T. J. Kehoe, “Calibrating the Growth Model.”

T. J. Kehoe and Kim J. Ruhl, “Why Have Economic Reforms in Mexico Not Generated Growth?” *Journal of Economic Literature*, 48 (2010), 1005–1027.

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. Search, Matching, and Unemployment

Ljungqvist-Sargent, Chapter 6.

Stokey-Lucas-Prescott, Chapter 10.

D. T. Mortensen and C. A. Pissarides “Job Creation and Job Destruction in the Theory of Unemployment,” *Review of Economic Studies*, 61 (1994), 397–415.

6. Business Cycles

T. F. Cooley and E. C. Prescott, “Economic Growth and Business Cycles,” in T. F. Cooley, editor, *Frontiers of Business Cycle Research*, Princeton University Press, 1995, 1–38.

R. J. Hodrick and E. C. Prescott, “Postwar U.S. Business Cycles: An Empirical Investigation,” *Journal of Money, Credit, and Banking*, 29 (1997), 1–16

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

7. Crises and Great Depressions

R. Bergoeing, P. J. Kehoe, T. J. Kehoe, and R. Soto, “A Decade Lost and Found: Mexico and Chile in the 1980s,” in T. J. Kehoe and E. C. Prescott, editors, *Great Depressions of the Twentieth Century*, Federal Reserve Bank of Minneapolis, 2007, 217–256.

H. L. Cole and L. E. Ohanian, “A Second Look at the Great Depression in the United States From A Neoclassical Perspective,” in T. J. Kehoe and E. C. Prescott, editors, *Great Depressions of the Twentieth Century*, Federal Reserve Bank of Minneapolis, 2007, 21–58.

J. C. Conesa, T. J. Kehoe, and K. J. Ruhl, “Modeling Great Depressions: The Depression in Finland in the 1990s,” in T. J. Kehoe and E. C. Prescott, editors, *Great Depressions of the Twentieth Century*. Federal Reserve Bank of Minneapolis, 2007, 427–475.

T. J. Kehoe and E. C. Prescott, “Great Depressions of the Twentieth Century,” in T. J. Kehoe and E. C. Prescott, editors, *Great Depressions of the Twentieth Century*, Federal Reserve Bank of Minneapolis, 2007, 1–20.

T. J. Kehoe and K. J. Ruhl, “Sudden Stops, Sectoral Reallocations, and the Real Exchange Rate,” *Journal of Development Economics*, 89 (2009), 235–249.

8. 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,” *Review of Economic Studies*, 73, 163–193.

Ljungqvist-Sargent, Chapters 16–20.