

Course Syllabus

Econ 7660: Advanced Macroeconomic Theory II
Department of Economics, University of Manitoba
January-April 2008

Instructor: Dr. Ryan A. Compton
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Office Hours: TH 11:15-12:00 in Fletcher Argue 556

Schedule: 1:00 – 3:55, Tu in 129 St. John’s College
Required Text: *Advanced Macroeconomics*, David Romer, 3rd ed, McGraw-Hill Irwin
(course will also rely on outside notes and material)
Course Web Site: home.cc.umanitoba.ca/~compton/teaching.html
Prerequisites: 018.765. I also assume knowledge of graduate level econometrics.

Grading Procedure:
Seminar Participation: (10%)
Seminar and Paper Summary: (25%)
Midterm Exam: (25%) February 26, 2008
Final Exam: (40%) During finals period in April 2008.

Grade Conversion Scale:

92 and above	A+	62-67	C+
84-92	A	Below 62	F
75-83	B+		
68-74	B		

As required by the University, please note:

1. Evaluative feedback will be provided by the voluntary withdrawal deadline, which is March 20, 2008.
2. Students will not be permitted to write make-up tests or hand in assignments late, except for documented medical or compassionate reasons.
3. Students should acquaint themselves with the University’s policy on plagiarism and cheating and examination impersonation (see pp. 21 of the 07-08 UofM graduate calendar).

http://umanitoba.ca/faculties/graduate_studies/media/Grad_Cal_0708-FINAL.pdf

4. Students appealing any term work whether it be an informal or formal appeal must appeal their term work within 10 working days of receiving their mark.

Course Outline¹

This course is a PhD level course in macroeconomics and consists of two components. One component, which is taught in class and is the major component of the course, is coverage of largely the literature on economic growth and growth theory. The second component, which is not covered in class, is required reading of major papers in macroeconomics (which cover a range of topics). My philosophy is that graduate education is more than what is taught in the classroom, and that graduate students should be reading and acquainting themselves with major papers in macroeconomics that are for the most part standards in the field. Students are expected to know this material for the final exam. I will discuss this further in class.

Section I (taught section)

- 1. Introduction to Growth Theory**
 - a. Basic Overview of Why Growth is Important
 - b. Stylized Facts of Economic Growth

- 2. The Standard Models of Growth Theory**
 - a. Solow-Swan Model
 - b. Augmented Solow Model
 - c. Overlapping Generations Models
 - d. New Growth Theories

- 3. How Well Do These Macro Models Explain Growth?**

Will discuss some empirical papers including *potentially*:

 - a. Jones (1995) and McGrattan (1998)
 - b. Klenow and Rodriguez-Clare (1997a, 1997b)
 - c. Pritchett (1997)
 - d. Temple (1999)
 - e. Bernanke and Gurkaynak (2001)
 - f. Easterly and Levine (2001)
 - g. Hoeffler (2002) and Nkurunziza and Bates (2003)
 - h. Temple (2003)

- 4. Dynamic Programming**
 - a. Overview
 - b. Applications

- 5. Topics in Growth Theory (Time Permitting)**
 - a. Political Economy and Growth
 - b. Finance and Growth
 - c. Institutions and Growth

¹ This is a tentative outline. I reserve the right to change the ordering or content as the course progresses.

Section II (reader): Papers in Economics

Real Business Cycle Theory

Prescott, Edward (1986). "Theory Ahead of Business Cycle Measurement." *Federal Reserve Bank of Minneapolis Review*, Fall 1986, pp. 9-22.

Rebelo, Sergio (2005). "Real Business Cycle Models: Past, Present, and Future." *NBER Working Papers*, No. 11401.

Currency Crises

Krugman, Paul (2001). "Crises: The Next Generation". Rough Draft for March 2001 Razin Conference, Tel Aviv.

Determinants of Development

Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi (2002). "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," *NBER Working Paper 9305*.

Finance and the Real Economy

Fazzari, Steven, R. Glenn Hubbard and Bruce Petersen (1988). "Finance Constraints and Corporate Investment." *Brookings Papers on Economic Activity*, 1:1988, pp. 141-195.

Greenwood, Jeremy and Bruce D. Smith (1997). "Financial Markets in Development and the Development of Financial Markets." *JEDC*, 21(1997), pp. 145-81.

Ahlin, Christian and Jiaren Pang (Forthcoming). "Are Financial Development and Corruption Control Substitutes in Promoting Growth?" *JDE*.

Growth and Transition Dynamics

King, Robert and Sergio Rebelo (1993). "Transition Dynamics and Economic Growth in the Neoclassical model." *AER*, 83(4), pp. 908-931.

Industrial Revolution

Hansen Gary, and Edward Prescott (2002). Malthus to Solow. *AER*, 92(4), pp. 1205-1217.

Inflation

Cagan, Philip (1956), "The Monetary Dynamics of Hyperinflation," in Milton Friedman (ed), *Studies in the Quantity Theory of Money* (Chicago: University of Chicago Press).

Sargent, Thomas (1986). "The Ends of Four Big Inflations." In R. Hall (ed), *Rational Expectations and Inflation*. NY: Harper and Row.

Procyclical Policy

Alesina, Alberto and Guido Tabellini (2005). "Why is Fiscal Policy Often Procyclical?" *NBER Working Papers*, No. 11600, September 2005.

Kaminski, Graciela, Carmen Reinhart, and Carlos Vegh (2004). "When it Rains it Pours: Procyclical Capital Flows and Macroeconomic Policies" *NBER WP #10780*.

Real Effects of Finance on the Economy: The Great Depression

Bernanke, Ben S (1983). "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression." *AER*, 73 (3), pp. 257-276.

Coe, Patrick (2002). "Financial Crisis and the Great Depression: A Regime Switching Approach." *JMCB*, 34 (1), pp. 76-94.

Real Effects of Monetary Policy

Fischer, Stanley (1977). "Long Term Contracts, Rational Expectations, and the Optimal Monetary Policy Rule." *JPE*, 85(1), pp. 191-205.

Mishkin, Frederic (1982). "Does Anticipated Monetary Policy Matter? An Econometric Investigation." *JPE*, 90(1), pp.22-51.

Robert Lucas

Lucas, Robert Jr (2003). "Macroeconomic Priorities." *AER*, 93(1), pp. 1-14.

Lucas, Robert Jr (1976). "Econometric Policy Evaluation: A Critique." *Carnegie-Rochester Conference Series on Public Policy*, 1, pp. 19-46.

Lucas, Robert Jr. (1990). "Why Doesn't Capital Flow from Rich to Poor Countries?" *AER*, 80(2), pp. 92-96.

Rules vs. Discretion

Kydland, Finn E. and Edward C. Prescott (1977). "Rules Rather Than Discretion: The Inconsistency of Optimal Plans." *JPE*, 85(3), pp. 473-492.

Taylor, John (1993). "Discretion Versus Policy Rules in Practice." *Carnegie-Rochester Conference Series on Public Policy*, 15, pp. 151-200.

Theory Shaping Policy

Chari, V.V. and Patrick J. Kehoe (2006). "Modern Macroeconomics in Practice: How Theory is Shaping Policy." *JEP*, 20(4), pp. 3 – 28.

For those interested in pursuing more on economic growth, the following are useful references.

Aghion, Philippe and Peter Howitt (1998). *Endogenous Growth Theory*, MIT Press

Aghion, Philippe and Steven N. Durlaf, eds. (2005) *Handbook of Economic Growth*, North Holland Press.

Barro, Robert and Xavier Sala-i-Martin (2003). *Economic Growth*, 2nd edition, MIT Press.

Easterly, William (2001). *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics*. MIT Press.

Helpman, Elhanan (2004). *The Mystery of Economic Growth*. Belknap Press.