

Course Syllabus

Econ 7660: Advanced Macroeconomic Theory II
Department of Economics, University of Manitoba
January-April 2012

Instructor: Dr. Ryan A. Compton
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Phone: Email me, don't call me.
Office Hours: W 10:30-11:30 in Fletcher Argue 517

Schedule: 11:30 – 2:30, Th in 216 Tier
Required Text: *Advanced Macroeconomics*, David Romer, 4th ed, McGraw-Hill Irwin
Course Web Site: home.cc.umanitoba.ca/~compton/teaching.html
Prerequisites: Econ 7650. I also assume knowledge of graduate level econometrics.

Grading Procedure:
Seminar and Paper Summary: (25%)
Midterm Exam: (25%) March 1, 2012
Final Exam: (50%) During finals period in April 2012.

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 16, 2012.
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 the 11/12 University of Manitoba Graduate Calendar). If you have any questions about this please see me.
4. Penalties for Academic Dishonesty: The common penalty in Arts for plagiarism on a written assignment is F on the paper and F (CW) (for Compulsory Withdrawal) for the course. For the most serious acts of plagiarism, such as the purchase of an essay and repeat violations, this penalty can also include suspension for a period of up to five years from registration in courses taught in a particular department in Arts or from all courses taught in this Faculty. The Faculty also reserves the right to submit student work that is suspected of being plagiarized to Internet sites designed to detect plagiarism. The common penalty in Arts for academic dishonesty on a test or examination is F for the

paper, F (CW) for the course, and a one-year suspension from courses acceptable for credit in the Faculty. For more serious acts of academic dishonesty on a test or examination, such as repeat violations, this penalty can also include suspension for a period of up to five years from registration in courses taught in a particular department in Arts or from all courses taught in or accepted for credit by this Faculty. The Faculty is considering adopting a *zero tolerance* approach for “cheating” on either a term test or a final examination. Under this approach, students for whom allegations of cheating has been upheld will receive a final course grade of F (CW) and a minimum two year suspension.

5. Students appealing any term work whether it is an informal or formal appeal must appeal their term work within 10 working days of receiving their mark.
6. Any term work that has not been claimed by students will be held for four (4) months from the end of the final examination period for the term in which the work was assigned. At the conclusion of this time, all unclaimed term work will be destroyed according to FIPPA guidelines.

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 the literature on economic growth, growth theory, and real business cycles. 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 (Outside Material)
- b. Stylized Facts of Economic Growth (Outside Material)

2. The Standard Models of Growth Theory

- a. Solow-Swan Model (Chapter 1, Romer)
- b. Augmented Solow Model (Chapter 4, Romer)
- c. Overlapping Generations Models (Outside Material and Chapter 2, Romer)
- d. Endogenous Growth Theories (Chapter 3, Romer)

3. Cross Country Income Differences (Chapter 4, Romer)

- a. Augmented Solow Model
- b. Social Infrastructure
- c. Differences in Growth Rates

4. Real Business Cycle Theory (Chapter 5, Romer)

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

Craig Burnside, Martin Eichenbaum, and Sergio Rebelo (2007). "Currency crisis models", *New Palgrave Dictionary of Economics*, 2nd ed.

Determinants of Development

Rodrik, Dani, Arvind Subramanian, and Francesco Trebbi (2004). "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," *JEG*, 9(2), pp. 131-165.

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 (2008). "Are Financial Development and Corruption Control Substitutes in Promoting Growth?" *JDE*, 86(2), pp. 414-433.

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 (2008). "Why is Fiscal Policy Often Procyclical?" *Journal of the European Economic Association*, 6(5), pp. 1006-1036.

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.

Currency Areas

Mundell, Robert (1961). "A Theory of Optimum Currency Areas" *AER*, 51(4), pp. 657-665.

Credit Market Imperfections

Stiglitz, Joseph and Andrew Weiss (1981). "Credit Rationing in Markets with Imperfect Information." *AER*, 71 (June 1981), pp. 393-410.

Myers, Stewart and Nicholas Majluf (1984). "Corporate Financing and Investment Decisions when Firms Have Information that Investors Don't Have." *JFE*, 13 (June 1984), pp. 187-221.

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.