Macroeconomics
411-1
Fall, 2006
Christiano

Syllabus

1. General Information.

- Lectures are Tuesday and Thursday, 2 - 3.50pm, Harris Hall 307. Recitation: Friday 9 - 10.50am, in Annenberg G32. Three exceptions: I will not lecture on September 19, 26 and November 9. These three lectures will be made up by lectures in recitation, September 22 and 29, and November 17. There is a possibility that the September 26 lecture time will be taken by a recitation. This will be announced in class on September 22.

- My office number is 3246, Andersen Hall; Phone: 491-8231. Email: l-christiano@northwestern.edu. Office hours: Tuesday, 4 - 5pm.

- TA: Nic Lehmann-Ziebarth, telephone number, 491-8211; office, 346 Andersen; email, n-lehmann-ziebarth@northwestern.edu. Office hours, Wednesday, 3 - 5pm.

- The grades will be determined as follows: homeworks, 10%; midterm, 40%; final, 50%. There will be weekly homework assignments. You are requested to work in teams of up to five students on these problem sets, and only one should be submitted per group. Homeworks should be turned in to the Economics Department office by Wednesday, 5pm, in the week after they are assigned.

- The midterm is on Tuesday, October 24, in class. The final is on Thursday, December 7, 3 - 5pm, in the regular lecture room.

2. Goals.

Macroeconomics is about: (i) developing positive models that can help us understand the dynamics of key macroeconomic variables: employment, unemployment, interest rates, output, etc.; and (ii) using these models to make judgements about what policies the government should,
or should not, pursue. Classic questions include the proper setting of
taxes and money over the business cycle. The purpose of the course is
to study basic tools useful for (i) and (ii), and to review (a subset of)
the relevant substantive findings reported in the literature.

To address (i), we will begin by developing the basic building block
of modern macroeconomics: the infinite lived, deterministic, homoge-
neous agent growth model. One set of variations of this model will
allow us to review a subset of the modern theory of growth. Another
will allow us to review basic results in monetary economics. A third
set of variations will allow us to review the theory of business cycles.

To address (ii), we will study the optimal determination of tax rates.
We will first study this problem assuming the government can deter-
mine at some initial date what the optimal setting of these variables
is for all time, and all possible circumstances, and that it can then
commit itself credibly to actually implementing these policies. We will
go on to study the more realistic (though more complicated, too) case
where the government lacks the ability to commit.

- The textbooks for the course are S-L and L-S:
  Nancy L. Stokey and Robert E. Lucas, Jr., with Edward C. Prescott,
  *Recursive Methods in Economic Dynamics*, Harvard University

  Ljungqvist and Sargent’s, *Recursive Macroeconomic Theory*, 2nd

- Additional reading materials will be made available on the course
  website.
COURSE OUTLINE

There will be 20 lectures (one of these is taken by the midterm). The topics are summarized below, with the rough number of lectures expected to be devoted to each given in parentheses. The primary and related readings for each lecture are listed. (Many of the related readings may be found on the course website, which can be found by going to my web page.)

1. Infinite Horizon Model With No Uncertainty and Fixed Labor.
   
   (a) (four lectures) Efficient Allocations.
      
      i. Sequence Approach (S-L: pp. 8-13, sec. 4.5).
      
      ii. Function Space and Dynamic Programming (S-L; pp. 13-16, sec. 4.2, sec. 6.1).
   
   (b) (one lecture) Equilibrium Concepts (S-L: sec. 2.3; L-S: chap. 6, 7; Cooley-Prescott, 1995, pp. 8-10).
      
      i. Sequence concepts:
         
         A. Date 0 Arrow-Debreu.
         
         B. Sequence-of-Markets.
      
      ii. Recursive Competitive Equilibrium.
   
   
   (d) (seven lectures) Application: Growth Theory (L-S, chap11; Jones and Manuelli, 1997).
      
      i. Exogenous growth models.
         
         A. Growth generated by ‘disembodied’ technical change (S-L, sec. 5.4; related paper: Christiano (1989)).

ii. Endogenous growth models.
A. “Ak” models (Christiano and Harrison (1999, Appendix); see also: Rebelo (1991)).
B. Learning-by-doing and learning-or-doing (S-L; sec. 5.7).
C. Increasing variety and specialization (Romer, 1987; Matsuyama, 1999; class notes on Matsuyama).

iii. Reasons that Growth Might Not Happen, Even if the Technology is ‘Right’
A. Overlapping-generations example (Jones and Manuelli, 1997).
B. Vested Interests (Herrendorf and Teixeira, (2003), Parente and Prescott (1994, 1999), Krusell and Rios-Rull (1996)).

2. (two lectures) Adding Variable Labor and Money. (See: Albanesi, Chari, and Christiano, (2002a); Christiano and Rostagno, (2002); see also Cole and Kocherlakota, 1998).

(a) Necessary and Sufficient Conditions for Private Sector Equilibrium In Cash in Advance Economies.
(b) Multiplicity of Private Sector Equilibria.
(c) The Optimal Private Sector Equilibrium, and the Type of Monetary Policies that Can Support it.


(a) Business Cycle Implications (Cooley and Prescott (1995); see also: Prescott (1986), Summers (1986), Boldrin, Christiano and Fisher (2001)).
(b) RBC model with multiple equilibria and sunspot equilibria (see: Christiano and Harrison (1999), Shleifer (1983), class notes on Shleifer; related readings: Bryant (1981,1983), Cass and Shell (1983); Cooper and John (1988); Diamond and Dybvig (1983);
Diamond (1982); Farmer (1993); Farmer and Guo (1994, 1995); Farmer and Woodford (1984); Gali (1994a, b); Krugman (1991); Woodford (1986, 1991)).

4. (two lectures) Optimal Policy

(a) The case of full commitment, (Chari (1988); see also Chari, Christiano and Kehoe (1994); Lucas and Stokey (1983)).

(b) The case of no commitment (the ‘time inconsistency problem’) (Chari (1988) and Christiano and Fitzgerald (2002); see also: Chari, Christiano and Eichenbaum (1996); Albanesi, Chari, and Christiano, (2002a, b), Chari and Kehoe (1980); Kydland and Prescott (1977); Stokey (1991)).
References


