

Syllabus

Course Organization

The class meets on Mondays and Wednesdays from 9:00 a.m. to 10:50 a.m. in AAH 3245. A discussion section will meet in the same room Fridays 11:00 a.m. to 12:50 p.m. The course grade will be based on three components: problem sets (25%), a midterm exam (25%), and a final exam (50%). The midterm exam will take in class on April 20th.

Contact Information

The easiest way to get in contact with me if you have any questions is via e-mail. My address is:

`doepke@northwestern.edu`

My office hours are Wednesdays from 3:45 to 5 p.m. in Andersen Hall 316. A web site for this course will be maintained on Blackboard.

The teaching assistant for the class is Jorge Lemus:

`jlemus@u.northwestern.edu`

Textbooks

The main textbook for the class is Ljungquist and Sargent (LS). We will also draw to some extent on Stokey-Lucas Prescott (SP), and additional readings will be made available on the course web site.

Lars Ljungquist and Thomas J. Sargent (2004), *Recursive Macroeconomic Theory*, 2nd edition, MIT Press.

Nancy L. Stokey and Robert E. Lucas (1989), *Recursive Methods in Economic Dynamics*, Harvard University Press.

Preliminary List of Course Topics

1. Heterogeneity in the standard model: insurance and consumption under complete markets and full information.
 - LS, chapter 8.
2. Models with exogenously incomplete markets.
 - LS, chapter 16, 17.
 - Dirk Krueger's manuscript on "Consumption and Saving: Theory and Evidence," chapters 1–4.
 - Aiyagari, Rao (1994): "Uninsured Idiosyncratic Risk and Aggregate Saving," *Quarterly Journal of Economics* 109(3), 659–684.
 - Aiyagari, Rao (1995): "Optimal Capital Income Taxation with Incomplete Markets and Borrowing Constraints," *Journal of Political Economy* 103(6), 1158–1175.
 - Krusell, Per and Tony Smith (1998): "Income and Wealth Heterogeneity in the Macroeconomy," *Journal of Political Economy* 106(5), 867–896.
3. Endogenous market incompleteness: Bankruptcy and participation constraints.
 - LS, 19.1–19.4, chapter 20.
 - Dirk Krueger's manuscript on "Consumption and Saving: Theory and Evidence," chapter 6.
 - Alvarez, Fernando and Urban Jermann (2000): "Efficiency, Equilibrium, and Asset Pricing with Risk of Default," *Econometrica* 68(4), 775–797.
 - Krueger, Dirk and Fabrizio Perri (2005): "Does Income Inequality Lead to Consumption Inequality? Evidence and Theory," *Review of Economic Studies* 73(1), 163–193.
4. Endogenous market incompleteness: Private information.
 - LS, 19.5, 19.6.
 - Atkeson, Andrew and Robert E. Lucas, Jr. (1992): "On Efficient Distribution with Private Information," *Econometrica* 59(4), 1069–1089.
 - Kehoe, Timothy J. and David K. Levine (1993): "Debt-Constrained Asset Markets," *Review of Economic Studies* 60(4), 865–888.
5. Search models of the labor market.
 - LS, chapters 6, 26.
 - Mortensen, Dale T. and Christopher A. Pissarides (1994): "Job Creation and Job Destruction in the Theory of Unemployment," *Review of Economic Studies* 61, 397–415.

- Christopher A. Pissarides (2000), "Equilibrium Unemployment Theory," MIT Press.
 - Rogerson, Richard, Robert Shimer, and Randall Wright (2005): "Search-Theoretic Models of the Labor Market: A Survey," *Journal of Economic Literature* 43, 959–988.
 - Rogerson, Richard and Robert Shimer (2010): "Search in Macroeconomic Models of the Labor Market," manuscript in preparation for Handbook of Labor Economics.
 - Robert Shimer (2009): "Labor Markets and Business Cycles," book manuscript.
6. Possible bonus topics: Political economy in macroeconomics, family macroeconomics.