

# Applied Macroeconomic Analysis

Spring 2018

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Office hours: Wednesdays from 1-2 and Fridays from 12:45-1:45 and by appt.

In this course, we will review the development of macroeconomics from the classical model, through Keynes, Friedman, the Rational Expectations "Revolution," and New Keynesian Economics. We will also study consumption, asset pricing, unemployment, and growth. David Romer's [Advanced Macroeconomics](#) will serve as our text, but we will be reading and discussing a lot of classic articles in macro and I will also provide supplemental readings from other sources.

## Grading:

Midterm (March 7 <sup>th</sup> )	30%
Final Exam (May 10 <sup>th</sup> )	30%
Homework	15%
Literature Review (May 9 <sup>th</sup> )	25%

## 1. The History of Macroeconomics

M. De Vroey and P. Malgrange, "[The History of Macroeconomics from Keynes's General Theory to the Present](#)," IRES Discussion Papers, 2011.

Assorted pdfs on classical macroeconomics and Keynesianism

Franco Modigliani, "The monetarist controversy; or, should we forsake stabilization policies?" *American Economic Review*, 1977.

Friedman, Milton, 1968, "The role of monetary policy," *American Economic Review*, 58(1), pp.1-17.

Romer, 6.4 and 6.9, The Phillips Curve, expectations & the Friedman critique, and the Rational Expectations Revolution

## **2. New Keynesian Models**

- a. Imperfect Competition and Nominal & Real Rigidities (Romer, 6.5 - 6.7)
- b. The New Keynesian Phillips Curve (Romer, 7.4)
- c. Using the simple New Keynesian Model (Romer, 7.8)

Mankiw, N. Gregory, 1985, "Small menu costs and large business cycles: A macroeconomic model of monopoly," *Quarterly Journal of Economics* 100(2): 529-537.

Luo, Shaowen and Daniel Villar, 2017, "The Skewness of the Price Change Distribution: A New Touchstone for Sticky Price Models," Finance and Economics Discussion Series 2017-028. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2017.028>.

## **3. The Neoclassical Growth Model**

Romer, Chapter 1

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

Grier, Kevin and Robin Grier, 2007, Only Income Diverges: A Neo-Classical Anomaly, *Journal of Development Economics* 84(1): 25-45.

Felipe, Jesus, 1999, "Total factor productivity growth in East Asia: A critical survey," *Journal of Development Studies* 35(4): 1-41.

## **4. Consumption**

a. *The Permanent Income Hypothesis and the Random Walk Hypothesis*  
Romer, 8.1-8.3

Chang-Tai Hsieh, "Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund," *American Economic Review*, March 2003, pp. 397-405.

b. *The Consumption CAPM and the Equity Premium Puzzle*  
Romer, 8.5-8.6

Kocherlakota, N., 1996, The Equity Premium: It's Still a Puzzle, *Journal of Economic Literature* 1: 42-67.

Marios Angeletos, David Laibson, Andrea Repetto, Jeremy Tobacman and Stephen Weinberg, "The Hyperbolic Consumption Model: Calibration, Simulation and Empirical Validation," *Journal of Economic Perspectives*, Summer 2001, 15(3), pp. 47-68.

## **5. Unemployment**

Romer, 10.1-10.4, pp. 482-86, 10.7 and 10.8

Atif Mian and Amir Sufi, "What Explains the 2007-2009 Drop in Employment," February 2014, Chicago Booth Working Research Paper 13-43.

Aysegul Sahin, Joseph Song, Giorgio Topa, Giovanni Violante, "Mismatch unemployment," No. 566. Staff Report, Federal Reserve Bank of New York, 2012.

John Helliwell and Haifang Huang, "New Measures of the Costs of Unemployment: Evidence from the Subjective Well-Being of 2.3 Million Americans," NBER Working Paper 16829.

## **6. The recent financial crisis and its implications for macro**

Willem Buiter, "[The unfortunate uselessness of most 'state of the art' academic monetary economics](#)," March 6, 2009.

Noah Smith, "[Summing up my thoughts on macroeconomics](#)," June 10, 2017.

Paul Romer, "[What Went Wrong in Macro – Historical Details](#)," August 8, 2015.

Anton Korinek, "[Matching the Moment, But Missing the Point?](#)" October 19, 2015.

Noah Smith, "[Macro, what have you done for me lately?](#)" December 18, 2012.

David Glasner, "[The State We're In](#)," December 25, 2012.

David Romer, *Advanced Macroeconomics*, "Epilogue."

Ricardo Caballero, 2010, "Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome," *Journal of Economic Perspectives* 24, 85–102.

### Timeline for Literature Review

Note that I am NOT asking you to write a paper. I'm asking you to delve into the literature on your topic, pick the papers you find most important or interesting, summarize them, evaluate the arguments, and maybe say what you'd like to do or see done on the topic. If you love your topic, you can write a paper on it in the future. I'll even keep helping you.

2/21 Turn in a preliminary list of articles

3/7 Final List

3/28 Outline due

4/11 Revised outline due

4/25 First draft due

5/9 Final draft due

### **Potential topics for Macro Literature review**

1. Is or was the US in a liquidity trap after the 2008 crisis?
2. What is Quantitative Easing? Was it effective after the 2008 crisis?
3. Is too much government debt bad for economic performance?
4. Can austerity (fiscal contraction / consolidation) be expansionary?
5. What is the current size of the output gap? Are we now near potential output or is there still a shortfall?
6. What is the multiplier for fiscal stimulus? Does it vary with economic conditions?

7. Why has productivity growth been so low?
8. What will be the economic effect of the recent rounds of increases in the minimum wage in some states and cities?
9. Do trade agreements cost American jobs (or have they in the past)?
10. Why has labor force participation declined? What effect does this decline have on the macro economy?