

# EC4010 Macroeconomics: Detailed Syllabus

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Romer [21] is about the level of an ‘easy’ masters. The level of the course is almost that of Romer, without the mathematics. This course stresses economic intuition, so it is mostly a concept based course. The difficulty level will therefore be subjective. We will not be covering growth theory. We will start with chapter 7 on consumption and also introduce labour before going on to discuss monetary policy, though we will take a slightly different approach than that in chapter 10 – more like Mishkin [18] with the Fisher Equation, Quantity Theory of Money, short-run and long-run interest rates, monetary transmissions mechanisms and monetary policy issues plus quantitative easing and balance sheet recessions, etc., i.e. we will cover more current issues than those presented in Romer. Then we will move to New Keynesian Economics (like chapter 6 part B and C but less mathematical – less microfoundations-oriented and more about examining monetary policy in the euro area so I will stress intuition and the three equation model). We will then switch to the real business cycle model of chapter 4. If time permits, we will study the Ramsey model in chapter 2 – this is the only part about growth in the course, yet we will not be discussing growth at length here. We will conclude the course with search and matching models (chapter 9.8), particularly those of Diamond, Mortensen & Pissarides (DMP model), which can be appended to the real business cycle model to improve its relatively weak area, i.e. explaining the behaviour of unemployment.

Regarding some general reading – perhaps over Christmas, David Warsh’s ‘Knowledge and the Wealth of Nations’ is quite inspirational towards becoming an academic economist / pursuing a graduate degree in economics. Krugman’s ‘The Return of Depression Economics’ stresses the historical approach and learning from crises, something that he feels was lacking in the lead-up to the Great Recession. Meyer’s ‘A Term at the Fed’ is an interesting account of what it is like to work at one of the world’s most powerful economic institutions. Akerlof & Shiller’s ‘Animal Spirits’ stresses a less mathematical approach to analysing economics, motivating behavioural and psychological analysis as more useful tools. Stiglitz’ ‘Freefall’ and Morris’ ‘The Two Trillion Dollar Melt-down’ present interesting, intuitive analyses surrounding the Great Recession.

1. Scope: current macroeconomic institutions and policies, issues, models and history of macroeconomic thought. *Readings: primary:* class discussion; *secondary:* Snowdon & Vane [23], Murphy (2009) [20], Spiegel [24], Schumpeter [22]. Lots of interviews with economists (incl. Taylor, Mulligan, Stiglitz etc) on various topics: <http://www.econtalk.org/> Videos on different schools of thought within economics:

- Keynes: <http://www.youtube.com/watch?v=f7WDzL1hjQ>
- Hayek: <http://www.youtube.com/watch?v=Bd4svreSWko>
- Marx: [http://www.youtube.com/watch?v=2LzaagV\\_SAA](http://www.youtube.com/watch?v=2LzaagV_SAA)

The documentary, Inside Job, on the financial crisis (incl. interviews with leading economists): <http://www.veoh.com/watch/v29094259ARDHRaeT?h1=Inside+Job>.

2. Consumption & Labour. *Readings: primary:* notes and slides, Romer (chapter 7) [21].
  - Application: Fiscal Policy. *Readings: primary:* notes and slides, Romer (chapter 11) [21], (US Labour Market Sluggish Recovery & Policy) Mulligan [19]; *secondary:* (Fiscal Policy in a Depressed Economy) Delong & Summers [7], (Ricardian Equivalence) Ljungqvist & Sargent chapter 10 [15], (Asset Pricing) Ljungqvist & Sargent chapter 13 [15]. Elasticity of labour supply. *Readings: primary:* <http://www.nber.org/digest/jun10/w15746.html> and <http://gregmankiw.blogspot.ie/2006/12/card-on-income-and-substitution.html>
3. Long-Run General Equilibrium. *Readings: primary:* notes and slides.
4. Monetary Economics. *Readings: primary:* notes and slides, Mishkin (chapters 6 & 26) [18], (Quantitative Easing) Davies, Brookes, Daoud & Antolin-Diaz [6] on Woodford [29]<sup>1</sup>; *secondary:* Gali chapter 2 [11], Woodford [28], Friedman & Schwartz [10].
  - Applications: Financial Crisis. *primary:* slides, (Balance Sheet Recessions) Vukovic [26], Koo [14], Mian & Sufi [17] and Thornton [25], (Related to Delong & Summers on Fiscal Policy near Zero Lower Bound of Monetary Policy) Eggertson & Krugman [9]. Bernanke

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<sup>1</sup>This is a nice review of Woodford's paper. Before reading it, keep in mind the role of segmented markets and portfolio balance effects in quantitative easing. To take an example, suppose there are 5 yellow smarties and 5 orange smarties in the marketplace, and the FED 'makes' 4 yellow smarties, and swaps them in the market for 4 orange ones (leaving 9 yellow and 1 orange). What happens to the relative price? Well, if different coloured smarties are perfect substitutes, there is no change in the relative price of different coloured ones; smarties are smarties, end of story. Formally, there are no portfolio balance effects: relative rates of return don't have to change to induce people to hold the new 'portfolio' of assets. If, however, people prefer orange ones, their price would surely rise markedly relative to yellow ones. More formally, relative price changes depend on the substitutability between assets.

speech: link to Bernanke's speech on the monetary policy/global savings glut debate:<sup>2</sup> <http://www.federalreserve.gov/newsevents/speech/bernanke20100103a.htm>

5. New Keynesian Economics. *Readings: primary*: notes and slides, Mankiw chapter 14 [16], Gali & Gertler [12]; *secondary*: <http://www.karlwhelan.com/Teaching/TCD/handout6.pdf>, Gali chapter 3 [11], Walsh chapter 8 (<http://down.cenet.org.cn/upfile/8/2010517115030132.pdf>) [27], Woodford [28].
  - Applications: (Policy Uncertainty) Baker, Bloom & Davis [1, 2], (Hysteresis) Ball [3].
6. Real Business Cycle Theory. *Readings: primary*: notes and slides, Romer chapter 4 [21], Snowdon & Vane chapter 6 [23]; *secondary*: there is a good, insightful interview with Thomas Sargent at [http://www.minneapolisfed.org/publications\\_papers/pub\\_display.cfm?id=4526](http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4526).
  - Applications: (Great Depression) Cole & Ohanian [5], a talk by Lee Ohanian on his work on the Great Depression (an RBC perspective) [http://www.youtube.com/watch?v=d\\_YMR1Gk2JU](http://www.youtube.com/watch?v=d_YMR1Gk2JU).
7. Ramsey Model. *Readings: primary*: notes and slides.
8. Financial Crisis Continued. *Reading: primary*: slides, Brunnermeier [4], (Macroprudential Regulation) Hanson, Kashyap & Stein (2011) [13]; *secondary*: Murphy (2013) [8].
9. Search Theory. *Reading: primary*: slides, the Nobel speeches on Search Theory and Unemployment, providing good introductions: [http://www.nobelprize.org/nobel\\_prizes/economics/laureates/2010/](http://www.nobelprize.org/nobel_prizes/economics/laureates/2010/); *secondary*: , a discussion of Christopher Pissarides' work on labour search theory: <http://marginalrevolution.com/marginalrevolution/2010/10/christopher-a-pissarides.html>, Romer chapter 9.8 [21], Ljungqvist & Sargent chapter 26.3 [15].

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<sup>2</sup>Recall that a current account deficit is associated with an inflow of capital. Intuitively, if a country is "living beyond its means" (i.e., a current account deficit), it must be "borrowing" money from abroad (i.e., a capital inflow.)

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