

## **Preliminary Course Outline**

### **Economics 724 : Macroeconomic Theory II**

This is the required Macro course for Phd students. The course focuses on theories that help explain business cycle fluctuations. Some additional topics will also be covered that change from year to year.

### **Course Information**

Classes: Monday and Thursday 1:30-3:00,  
Office Hours: Tuesday 1:30 - 2:30 or by appointment.  
E-mail: johria@mcmaster.ca  
Extension: 23830

### **Evaluation**

There will be one midterm worth 30% of your final mark and one final exam worth 40 % of your final mark. The remaining 30% will be based on your performance on homework assignments and in-class discussion and presentations. I want you to work in groups of two or three students on the homework assignments and presentations. Each person in the group must take turns in presenting their work in class.

Tentative date for mid-term: thursday February 16 or March 2, 2006.

### **Topics and Reading List**

#### 1. Basic Business Cycle Models

R. G. King, C. I. Plosser, and S. T. Rebelo, "Production, growth and business cycles: I. The basic neoclassical model," *Journal of Monetary Economics*, vol. 21, no. 2/3, pp. 195-232, 1988.

R. G. King, C. I. Plosser, and S. T. Rebelo, "Production, growth and business cycles: Technical appendix," unpublished manuscript, University of Rochester, May 1987.

R. G. King, and S. T. Rebelo, "Resuscitating Real Business Cycles " in John Taylor and Michael

Woodford (eds.) *Handbook of Macroeconomics*, North-Holland.

G. D. Hansen, "Indivisible labor and the business cycle," *Journal of Monetary Economics*, vol. 16, pp. 309-327, 1985.

G. D. Hansen and R. Wright, "The labor market in real business cycle theory," *Federal Reserve Bank of Minneapolis, Quarterly Review*, vol. 16, pp. 2-12, Spring 1992..

R. Rogerson, "Indivisible labor, lotteries and equilibrium," *Journal of Monetary Economics*, vol. 21, no. 1, pp. 3-16, 1988.

L. J. Christiano and M. Eichenbaum, "Current real business cycle theories and aggregate labor market fluctuations," *American Economic Review*, vol. 82, pp. 430-450, June 1992.

C. Burnside, M. Eichenbaum, and S. Rebelo, "Labor hoarding and the business cycle," *Journal of Political Economy*, vol. 101, pp. 245-273, Apr. 1993.

T. Cogley and J. M. Nason, "Output dynamics in real-business-cycle models," *American*

Economic Review, vol. 85, pp. 492-511, June 1995.

Alok Johri and Marc-André Letendre, "What do ``residuals" from first-order conditions reveal about DGE models? ", McMaster University Working Paper, May 2002.

Russell Cooper and Alok Johri, " Learning-by-doing and aggregate fluctuations, " Journal of Monetary Economics, Volume 49, Issue 8, November 2002, Pages 1539-1566

## 2. Fiscal policy in DGE models

M. Baxter and R. G. King, "Fiscal policy in general equilibrium," American Economic Review, vol. 83, pp. 315-334, June 1993.

V. V. Chari, L. J. Christiano, and P. J. Kehoe, "Optimal fiscal policy in a business cycle model," Journal of Political Economy, vol. 102, pp. 617-652, Aug. 1994.

Eichenbaum, M., Fischer, J. and W. Edelberg, 'Understanding the Effects of Shocks to Government Purchases', Review of Economics Dynamics, 2(1), January 1999, pages 166-206.

Craig Burnside, Martin Eichenbaum and Jonas Fisher, " Assessing the Effects of Fiscal Shocks, "

Northwestern University working Paper, 2002 published as Fiscal shocks and their consequences" Journal of Economic Theory, Volume 115, Issue 1, March 2004, Pages 89-117 .  
Ch12 in Recursive Macroeconomic Theory by Lars Ljungqvist and Thomas J. Sargent

## 3. Efficiency Wages

Shapiro,-Carl; Stiglitz,-Joseph-E, Equilibrium Unemployment as a Worker Discipline Device, American-Economic-Review. June 1984; 74(3): 433-44. Also in Mankiw,-N.-Gregory; Romer,-David, eds. MIT Press Readings in Economics New Keynesian economics. Volume 2. Cambridge, Mass. and London: MIT Press 1991; 3-24.

Alexopolous, Michelle, " Unemployment and the Business Cycle," Journal of Monetary Economics (2004) 51, 277-298.

## 4. Strategic Complementarities and co-ordination

Cooper,Russell and John, Andrew, "Coordinating Coordination Failures in Keynesian Models, " Quarterly Journal of Economics (1988). Also in Mankiw,-N.-Gregory; Romer,-David, eds. MIT Press Readings in Economics New Keynesian economics. Volume 2. Cambridge, Mass. and London: MIT Press 1991; 3-24.

Cooper, Russell, Coordination Games; Complementarities and Macroeconomics, Cambridge University Press, Cambridge UK 1999.

Cooper,-Russell-W; Johri,-Alok,, Dynamic Complementarities: A Quantitative Analysis, Journal-of-Monetary-Economics. September 1997; 40(1): 97-119

## 5. Imperfect Competition

M. B. Devereux, A. C. Head, and B. J. Lapham, "Aggregate fluctuations with increasing returns to specialization and scale," Journal of Economic Dynamics and Control, vol. 20, pp. 627-656, Apr. 1996.

J. Galí, "Monopolistic competition, business cycles, and the competition of aggregate demand," Journal of Economic Theory, vol. 63, pp. 73-96, June 1994.

A. Hornstein, "Monopolistic competition, increasing returns to scale, and the importance of productivity shocks," Journal of Monetary Economics, vol. 31, pp. 299-316, June 1993.

## 6. Search Models

Peter Diamond, "Aggregate Demand Management in Search Models," *Journal-of-Political-Economy*, 1982; 90(5): 881-94. Also in Mankiw, -N.-Gregory; Romer, -David, eds. *MIT Press Readings in Economics New Keynesian economics. Volume 2* Cambridge, Mass. and London: MIT Press 1991; 3-24.

Randy Wright. Notes on search models

David Andolfatto, Business Cycles and Labour Market Search. *American-Economic-Review*, March 1996; 86(1): 112-32.

## 7. Other topics in business cycle theory: TBA

Monetary DGE Models with sticky prices

Welfare costs of business cycle

Asset prices

International transmission of shocks