

Fall 2017
University of Zurich
Department of Economics

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MACROECONOMICS FOR PHD STUDENTS I

(FIRST HALF)

This course is an introduction to macroeconomic theory. We will emphasize tools that are used in many macroeconomic problems as well as, in fact, numerous other areas of economics. In terms of applications, we will focus on the determinants of individual and aggregate consumption and savings in dynamic economies, but also study the behavior of investment and asset prices along the way.

The course is designed for doctoral students. It is the first part of the four-quarter sequence in macroeconomics for first year PhD students and will take place in the first half of the fall semester (9/18 – 10/30). Lectures are on Mondays 10:30-12 and Tuesdays 14:15-15:45 in KOL-H321. TA sessions, held by Carlo Zanella, are Thursdays 14:15-15:45 in SOF-G21. Office hours are by appointment in SOF-G13 (Scheuer) and SOF-H05 (Zanella).

Problem sets are an important part of this course. You are encouraged to work on them in groups but must turn in your own individual work. TA sessions will be devoted to the solution of the previous week's problem set and sometimes extra material not covered in the lectures. The final exam (together with the second-quarter course, taught by David Hemous) will take place in class on Monday, December 18, 10-12 in KOL-E21. The final grade will be a weighted average of the problems sets and the final exam.

Materials

No book is required but I expect to make frequent use of the following:

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

This is the main book for dynamic programming, which will occupy part of the course.

Lars Ljungqvist and Thomas J. Sargent (2012), *Recursive Macroeconomic Theory*, 3rd Edition, MIT Press (hereafter LS).

This book has more emphasis on applications.

I will also distribute my own notes.

Topics

1. DYNAMIC EXCHANGE ECONOMIES

SLP chapter 2 and 15

2. COMPLETE MARKETS, RISK SHARING

LS chapters 8 and 13

SLP chapter 15

Townsend, Robert M. (1993), "The Medieval Village Economy: A Study of the Pareto Mapping in General Equilibrium Models," Princeton University Press, Chapter 4

Townsend, Robert M. (1994) "Risk and Insurance in Village India," *Econometrica*, 62, 539-91

Townsend, Robert M. (1995) "Consumption Insurance: An Evaluation of Risk-Bearing Systems in Low-Income Economies." *Journal of Economic Perspectives*, 9, 83-102

3. NEOCLASSICAL GROWTH MODEL

SLP chapters 2 and 16

LS chapter 15

4. DYNAMIC PROGRAMING UNDER CERTAINTY AND UNCERTAINTY

SLP chapters 4, 5, 8, 9 and 10

LS chapters 3 and 4

5. PRECAUTIONARY SAVINGS, INCOME FLUCTUATIONS PROBLEM

LS chapter 17

Aguiar, Mark and Erik Hurst (2005) "Consumption Versus Expenditure", *Journal of Political Economy*, 113, 919-48.

Attanasio, Orazio P. (1998) "Consumption Demand," in *Handbook of Macroeconomics*, in John B. Taylor and Michael Woodford (eds.). Amsterdam: Elsevier Science [also NBER working paper #6466]

Carroll, Christopher and Larry Summers (1991) "Consumption Growth Parallels Income Growth: Some New Evidence," in Bernheim and Shoven (eds.), *National Savings and Economic Performance*, Chicago, Chicago University Press

Flavin, Marjorie (1981) "The Adjustment of Consumption to Changing Expectations of about Future Income," *Journal of Political Economy*, 89, 974-1009

Hall, Robert (1978) "Stochastic Implications of the Life Cycle Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, 86, 237-266

6. GENERAL EQUILIBRIUM WITH INCOMPLETE MARKETS

LS chapter 18

- Aiyagari, S. Rao (1994) “Uninsured Idiosyncratic Risk and Aggregate Savings”, *Quarterly Journal of Economics*, 109, 659-84 (see also appendix in working paper version)
- Krusell, Per and Anthony A. Smith Jr. (1998) “Income and Wealth Heterogeneity in the Macroeconomy”, *Journal of Political Economy*, 106, 867-96
- Krusell, Per and Anthony A. Smith Jr. (1999) “On the Welfare Effects of Eliminating Business Cycles”, *Review of Economic Dynamics*, 2, 245-72
- Storesletten, Kjetil and Chris Telmer and Aaron Yaron (2004) “Cyclical Dynamics in Idiosyncratic Labor-Market Risk,” *Journal of Political Economy*, 112, 695-717

7. IMPERFECT INSURANCE WITH FRICTIONS

LS, chapters 20, 21 and 22

- Alvarez, Fernando and Urban J. Jermann (2000) “Efficiency, Equilibrium and Asset Pricing with Risk of Default”, *Econometrica*, 68, 775-798
- Atkeson, Andrew Robert E. Lucas, Jr. (1992) “On Efficient Distribution with Private Information.” *Review of Economic Studies*, 59, 427-53
- Kocherlakota, Narayana R. (1996) “Implications of Efficient Risk Sharing without Commitment”, *Review of Economic Studies*, 63, 595-609
- Lucas, Robert E. (1990) “On Efficiency and Distribution,” *Economic Journal*, 102, 233-247

8. NON-STANDARD PREFERENCES

- Backus, David, Bryan Routledge and Stanley Zin (2004) “Exotic Preferences for Macroeconomists”, *NBER Macroeconomics Annual 2004* [also NBER Working Paper #10597]
- Epstein, Larry G. and Stanley E. Zin (1989) “Substitution, Risk Aversion, and the Temporal Behavior of Consumption and Asset Returns: A Theoretical Framework,” *Econometrica*, 57, 937-69
- Laibson, David (1997) “Golden Eggs and Hyperbolic Discounting,” *Quarterly Journal of Economics*, 112, 443-477
- Phelps, E. S. and R. Pollack (1968) “On Second Best National Savings and Game-Equilibrium Growth,” *Review of Economic Studies*, 35, 185-199

9. INVESTMENT

- Abel, Andrew B. (1990) “Consumption and Investment”, in *Handbook of Monetary Economics*, vol. 2, edited by B. M. Freeman and F.H. Hahn, Elsevier Science
- Caballero, Ricardo J. (1999) “Aggregate Investment”, in *Handbook of Macroeconomics*, vol. 1B, edited by John B. Taylor and Michael Woodford. Amsterdam: Elsevier Science
- Dixit, A.K. and R.S. Pindyck (1994) “Investment Under Uncertainty”, Princeton University Press, Chapter 2
- Hayashi, Fumio (1982) “Tobin’s Marginal q and Average q: A Neo-Classical Interpretation,” *Econometrica*, 50, 213-224