

## **Economics 620-001**

### **Graduate Macroeconomics I**

Credits: 3

Method: Two lectures per week.

Meeting Times and Location: Tue and Thu 4:05-5:25 p.m. in Lea 15

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Office hours: Tue 5:45 to 6:45 p.m. and Fri 10:00-11:00 a.m.

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TA Conferences: TBA

TA Office hours: TBA

**Learning Objectives:** This course is the first in a two-course sequence in macroeconomics. The course offers a thorough treatment of the fundamentals of macroeconomic theory. Emphasis is placed on the construction of economic models with microeconomic foundations. The objective is to build on the training you received as an undergraduate to provide you with the background and tools required to understand the scientific literature in this field.

**Math Requirements:** Calculus is freely used in this course, furthermore we will make use of a set of mathematical techniques that you might not be familiar with. The first three lectures will be devoted to the introduction of these techniques at a user level.

**Econ Requirements:** An understanding of macroeconomics at an intermediate undergraduate level will be assumed. Those of you that lack any previous training in the subject should read any intermediate book (DeLong / Abel, Bernanke, Smith and Kneebone / Mankiw / Blanchard)

**Textbook:** This course will follow some of the material in *Advanced Macroeconomics* by David Romer, McGraw-Hill, and therefore I recommend you to own a copy (of any edition of the book). The chapters in the syllabus refer to the 2<sup>nd</sup> edition.

**Grading policy:** There will be a mid-term (20%), a final (50%), a presentation (25%) and several problem sets (5%).

**Midterm date and location:** During class time on **Tuesday, October 13<sup>th</sup>**. If you miss the midterm (doctor's note or similar) there will be **no** make-up exam and your exam grade will be based solely on the final.

**Final date and location:** TBA

*McGill University values academic integrity. Therefore all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the Code of Student Conduct and Disciplinary Procedures (see [www.mcgill.ca/integrity](http://www.mcgill.ca/integrity) for further information).*

*According to Senate regulations, instructors are not permitted to make special arrangements for final exams. Please consult the calendar, section 4.7.2.1, General University Information and Regulations, at [www.mcgill.ca](http://www.mcgill.ca) .*

*In accord with McGill University's Charter of Students' Rights, students in this course have the right to submit in English or in French any written work that is to be graded. Here is an outline of the course, with the associated readings (Starred (\*) readings are required, Chapters from the book correspond to the 2<sup>nd</sup> Edition). Given that our lecture time is limited, some of the readings are aimed to complement the material covered in class.*

## **0. Some mathematical tools.**

ODE, systems of ODE's, linear approximations and stability, qualitative solutions (phase diagram) and intertemporal optimization

Barro, R. and X. Sala-I-Martin, *Economic Growth*. Appendix on Mathematical Methods. MIT Press.

Chiang, A. *Fundamental Methods of Mathematical Economics*, McGraw-Hill, Inc.

## **1. Introduction.**

Mankiw, G. (1990) "A Quick Refresher Course in Macroeconomics" JEL

Krugman, P. (1998) "Two Cheers for Formalism" EJ

Kirman, A. (1992) "Whom or What Does the Representative Individual Represent?" JEP

## **2. Economic growth**

### **2.1 Growth Facts and the world income distribution**

\* Jones, C. (1997) "On the Evolution of the World Income Distribution" JEP

\* The Economist, "More or less equal", March 11<sup>th</sup>, 2004

\* The Economist, "Pessimistic on Poverty", April 7<sup>th</sup>, 2004.

Sala-i-Martin, X. (2006) "The World Distribution of Income: Falling Poverty and ...convergence, period", QJE

Bourguignon, F. and C. Morrisson (2002) "Inequality among World Citizens: 1820-1992" AER

Dollar, David and Kraay, Aart (2002) "Growth Is Good for the Poor," JEG.

### **2.2 The Neoclassical Growth Model**

\* Romer (Ch. 1)

- \* Solow (1956), “A Contribution to the Theory of Economic Growth” QJE
- Solow, R. (1957) “Technical Change and the Aggregate Production Function” RES
- \* Mankiw, G, D. Romer and D. Weil (1992) “A Contribution to the Empirics of Economic Growth” QJE
- Sala-i-Martin, X. (1997) “I Just Ran Two Million Regressions” AER
- Barro, R. and Sala-i-Martin, X. (1992) “Convergence” JPE
- Pritchett, L. (1997) “Divergence, Big Time” JEP
- Caselli, R. and J. Ventura (2000) “A Representative Consumer Theory of Distribution” AER
- \* Lucas, R. (1990), “Why Doesn’t Capital Flow from Rich to Poor Countries” AER

### **2.3 Endogenous Growth Theory**

- \* Romer (Ch. 3.1-3.3. and 3.8)
- \* Solow R. (1994) “Perspectives on Growth Theory” JEP
- \* Romer, P. (1994) “The Origins of Endogenous Growth” JEP
- Grossman, G. and E Helpman (1994) “Endogenous Innovation in the Theory of Growth” JEP
- Romer, P. (1986) “Increasing Returns and Long-Run Growth” JPE
- Lucas, R. (1988) “On the Mechanics of Economic Development” JME
- Pack, H. (1994) “Endogenous Growth Theory: Intellectual Appeal and Empirical Shortcomings” JEP
- Jones, C. (1995) “Time Series Tests of Endogenous Growth Models” QJE

### **2.4 Beyond K and H: Growth and institutions**

- \* Hall, R. and C. Jones (1999) “Why Do Some Countries Produce So Much More Output per Worker than Others?” QJE

### **3. Investment.**

- \* Romer (Ch. 8)

### **4. Consumption.**

- \* Romer (Ch.7)

### **5. Theories of economic fluctuations: Introduction**

- \* Solow (1980) “On Theories of Unemployment.” AER
- Sargent and Wallace (1981) “Some Unpleasant Monetarist Arithmetic” FRBM Quarterly Review

### **6. Real Business Cycle models.**

- \* Krugman, P. (1998) “Baby-Sitting the Economy The baby-sitting co-op that went bust teaches us something that could save the world” Slate.
- \* Lucas, R. “What Economists Do”

Sweeney and Sweeney (1977), Monetary Theory and the Great Capital Hill Baby Sitting Co-op Crisis: Comment, *Journal of Money Credit and Banking*

\* Romer (Ch. 5)

\* Prescott, E. (1986) "Theory Ahead of Business Cycle Measurement", *Federal Reserve Bank of Minneapolis Quarterly Review*.

\* Summers, L. (1986) "Some Skeptical Observations on Real Business Cycle Theory", *Minneapolis Fed Quarterly Review*.

\* Plosser, Ch. (1989) "Understanding Real Business Cycles". JEP

Mankiw, G. (1989) "Real Business Cycles: A New Keynesian Perspective". JEP

King, R., and S. Rebelo (1999) "Resuscitating Real Business Cycles" *HandBook of Macroeconomics*

Kydland, F. and E. Prescott (1982) "Time to Build and Aggregate Fluctuations" *Econometrica*

## **7. Keynesian theories of fluctuations.**

\* Romer (Ch. 5.1 and 5.2)

\* Romer (2000) "Keynesian Macroeconomics without the LM Curve" JEP

\* Krugman, P. "There's something about macro"

\* Hall, R. (2010) "Fiscal Stimulus" *Daedalus*

Blinder A. (1988) "The Fall and Rise of Keynesian Economics" *ER*

King, R. (1993) "Will the New Keynesian Macroeconomics Resurrect the IS-LM Model?" JEP

\* Hicks, J. (1937) "Mr. Keynes and the "Classics": A Suggested Interpretation" *Econometrica*

Blanchard, O.J. (1981) "Output, the Stock Market, and Interest Rates" *AER*

\* Krugman, P. "Japan: Still Trapped"

Dornbusch, R. (1976) "Expectations and Exchange rate dynamics" *JPE*

**Journals:** Most of the articles can be found in JSTOR ([www.jstor.org](http://www.jstor.org)).

## **Presentations**

Presentations should last around 60 minutes. Then, there will be a 10-minute period for questions from the audience. A week before each presentation the group should send me a three-page summary of the material they will present that I will post in WebCT. All of us should read this summary before the date of presentation.

### **A. Business cycles**

#### **1. Fiscal Multipliers**

Barro, R.J. (1981) "Output effects of government purchases" *JPE*

Hall, R. (2009), "By How Much Does GDP Rise If the Government Buys More Output?" *Brookings*.

Romer C. and D. Romer (2010) “The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks” AER  
Ramey, V. (2011) “Can government purchase stimulate the economy?” JEL  
Ilzetzki, E., E. Mendoza and C. Vegh (2012), “How big (small?) are fiscal multipliers?” JME  
Auerbach, A. and Y. Gorodnichenko (2012), “Measuring the Output Responses to Fiscal Policy” AEJ:Economic Policy

## **2. European Debt Crisis and Greece**

Friedman, M. (1997) The Euro: Monetary Unity To Political Disunity? Project Syndicate  
Lane, P. (2012) “The European Sovereign Debt Crisis” JEP  
**Cross of Euros / The transmission of the great depression**  
Ardagna S. and F. Caselli (2014) “The Political Economy of the Greek Debt Crisis: A Tale of Two Bailouts” AEJ:Macro  
Blanchard, O. (2015) “Greece: Past Critiques and the Path Forward”

## **B. Fundamental causes of growth**

### **3. Institutions**

Acemoglu, D., S. Johnson and J. Robinson (2001) “The Colonial Origins of Comparative Development: An Empirical Investigation” AER  
Acemoglu, D., S. Johnson and J. Robinson (2002) “Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution” QJE  
Acemoglu, D., S. Johnson and J. Robinson (2004) “Institutions as the Fundamental Cause of Long-Run Growth” Handbook of Economic Growth

### **4. Geography**

Diamond, J., *Guns, Germs and Steel*, W.W. Norton & Co. (in the library they have a documentary based on the book that should do the job)  
Bloom, D. and J. Sachs. (1998) “Geography, Demography, and Economic Growth in Africa” *Brookings*  
Sachs, J. (2003) “Institutions don’t rule: Direct effects of geography on per capita income” NBER  
Alsan, M. (2015) “The Effect of the TseTse Fly on African Development” AER

	Date		Contents	HW (tentative)
1	08-Sep-15	Tuesday	Hello	
2	10-Sep-15	Thursday	Math	HWI
3	15-Sep-15	Tuesday	Math	
4	17-Sep-15	Thursday	Math	
5	22-Sep-15	Tuesday	Intro / Growth Facts	Due
6	24-Sep-15	Thursday	Solow	HWII
7	29-Sep-15	Tuesday	Solow	
8	01-Oct-15	Thursday	Evaluation	
9	06-Oct-15	Tuesday	Endogenous	
10	08-Oct-15	Thursday	Endogenous / Beyond	Due
<b>11</b>	<b>13-Oct-15</b>	<b>Tuesday</b>	<b>Midterm</b>	
12	15-Oct-15	Thursday	Investment	
13	20-Oct-15	Tuesday	Investment	
14	22-Oct-15	Thursday	Investment / Consumption	HWIII
15	27-Oct-15	Tuesday	Consumption / Intro BC	
16	29-Oct-15	Thursday	Intro BC	
17	03-Nov-15	Tuesday	RBC	
18	05-Nov-15	Thursday	RBC	
19	10-Nov-15	Tuesday	Keynes	
20	12-Nov-15	Thursday	Keynes	
21	17-Nov-15	Tuesday	Keynes	
22	19-Nov-15	Thursday	Keynes (Open)	
23	24-Nov-15	Tuesday	Keynes (Open)	
24	26-Nov-15	Thursday	Greece	Due
25	01-Dec-15	Tuesday	Institutions	
26	03-Dec-15	Thursday	Geography	