

MACROECONOMIC THEORY II

Objectives: In this course we will study recursive methods in discrete time and their application to macroeconomic issues such as growth theory, asset pricing, labor search, business cycles and fiscal policy.

Main Texts:

- Stokey, N. and R. Lucas (with E.C. Prescott), *Recursive Methods in Economic Dynamics*. Harvard University Press, 1989.
- Ljungqvist and Sargent, *Recursive Macroeconomic Theory*. MIT press, 2000.
- Sargent, T., *Dynamic Macroeconomic Theory*. Harvard University Press, 1987.
- R. Manuelli and T. Sargent, *Exercises in Dynamic Macroeconomic Theory*. Harvard University Press, 1987.

I. Recursive Methods

Stokey and Lucas, chapters 1, 2, 3 and 4.

Ljungqvist and Sargent, *Recursive Macroeconomic Theory*. MIT press, 2000. Chapter 2.

II. Applications

Growth theory.

Stokey and Lucas, chapter 5 and references therein.

Cooley, T.F. and E.C. Prescott (1995), "Economic Growth and Business Cycles," in *Frontiers of Business Cycle Research*, T. F. Cooley, editor. Princeton University Press.

King, R., Plosser, C. and S. Rebelo (1988), "Production, Growth and Business Cycles. I. The Basic Neoclassical Model," *Journal of Monetary Economics*, pp. 195-232. Sections 1, 2 and 3.

Asset pricing.

Ljungqvist and Sargent, *Recursive Macroeconomic Theory*. MIT press, 2000. Chapter 10.

Hall, R. (1978), "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, 86, pp. 971-988.

Lucas, R. (1978), "Asset Prices in an Exchange Economy," *Econometrica*, 1429-1446.

Mehra, R. and E. Prescott (1985), "The Equity Premium: A Puzzle," *Journal of Monetary Economics*, 145-161.

Labor Search.

Ljungqvist and Sargent, Recursive Macroeconomic Theory. MIT press, 2000. Chapter 5.

Bertola, G. (1999) "Uninsurable Risk in the Labor Market" European University Institute, mimeo.

Business cycles.

Prescott, E. (1986), "Theory of Business Cycle Measurement," Federal Reserve Bank of Minneapolis Quarterly Review, Fall, pp. 9-22.

Cooley, T. (ed.), Frontiers of Business Cycle Research, Princeton University Press, 1995. Chapters 1 and 2.

Christiano, L. (1990), "Solving the Stochastic Growth Model by Linear Quadratic Approximation and by Value-Function Iteration," *Journal of Business Economics and Statistics*, pp. 23-26.

Coleman, W., (1990), "Solving the Stochastic Growth Model by Policy-Function Iteration," *Journal of Business Economics and Statistics*, pp. 27-30.

Den Haan, W. and A. Marcet, (1990), "Solving the Stochastic Growth Model by Parameterizing Expectations," *Journal of Business Economics and Statistics*, pp. 31-34.

King, R., Plosser, C. and S. Rebelo (1988), "Production, Growth and Business Cycles. I. The Basic Neoclassical Model," *Journal of Monetary Economics*, pp. 195-232. Sections 4, 5 and 6.

Stokey and Lucas (sections to be specified).

Taylor, J. and H. Uhlig, (1990), "Solving Nonlinear Stochastic Growth Models: A Comparison of Alternative Solutions Methods," *Journal of Business Economics and Statistics*, pp. 1-19.

Fiscal Policy. Optimal Taxation with and without Commitment.

Ljungqvist and Sargent, Recursive Macroeconomic Theory. MIT press, 2000. Chapter 12.

Klein, P., Krusell, P. and J.V. Ríos-Rull (2002), "Time-Consistent Public Expenditures," University of Pennsylvania, mimeo.