

ECONOMICS 5117
INTRODUCTION TO ADVANCED MACROECONOMICS I

Instructor: Dr. B. Moazzami

Textbooks:

Two required textbooks will be used in this course and students are expected to have access to both. They can be obtained through the university bookstore.

- (1) Branson, W. H., *Macroeconomic Theory and Policy*. New York: Harper and Row, 1979.
- (2) Scarth, W. (1996) *Macroeconomics – an Introduction to Advanced Methods*, Toronto: Harcourt Brace.

Readings:

Students are expected to have read all assigned readings, and are responsible for the contents of these readings regardless of whether they are covered in class.

Preparation:

Students who are unfamiliar with intermediate macroeconomics principles might wish to consult the following textbook:

Dornbush, Fisher, Sparks, *Macroeconomics*, McGraw-Hill, any edition.

Student Evaluation:

Mid-term Exam: 35%

Final Exam: 50%

Term Paper: 15%

Course Outline

Macroeconomics is a rapidly changing field. To get a general sense of direction, students must read the following two articles:

Olivier Blanchard, "What do we know about macroeconomics that Fisher and Wicksel did not?" *Quarterly Journal of Economics*, November 2000, pp. 1375-1409.

Michael Woodford, "Revolution and evolution in twentieth-century macroeconomics", mimeo Princeton, June 1999.

A. Income-Expenditure Models

1. A Closed Economy Equilibrium Model

Branson, Chapters 3-10.

Scarth, Chapters 2-3, 4 (sections 4.1, 4.2 and 4.3), 7 (sections 7.1, 7.2, and 7.3).

Smith, W. L. "A Graphical Exposition of the Complete Keynesian System." *Southern Economic Journal*, 23 (October, 1956), 115-125.

Rabin, A. and D. Birch. "A Clarification of the IS Curve and the Aggregate Demand Curve." *Journal of Macroeconomics*, 4 (Spring, 1982), 223-238.

Friedman, B. "Crowding Out or Crowding In? Economic Consequences of Financing Government Deficits, *Brookings Papers on Economic Activity*, (1978).

Floyd, J. E. and J. A. Hynes "Deficit Finance and First Round Crowding Out: A Clarification." *Canadian Journal of Economics*, 11 (February, 1978), 97-105.

Barro, R. J. "Are Government Bonds Net Wealth?" *Journal of Political Economy*, 82 (December, 1974), 1095-1117.

2. Open Economy Extensions

Branson, Chapter 17.

Scarth, Chapter 8.

Mundell, R. A. "Capital Mobility and Stabilization Policy Under Fixed and Flexible Exchange Rates." *Canadian Journal of Economics and Political Science*, 29 (November 1963), 475-485.

McKinnon, R. I. "The Exchange Rate and Macroeconomic Policy: Changing Postwar Perceptions." *Journal of Economic Literature*, 19 (June 1981), 531-557.

Dornbusch, R. "Expectations and Exchange Rate Dynamics", *JPE*, December 1976, 84, 1161-1176.

Obstfeld, R. and Rogoff, K., "Exchange Rate Dynamics Redux", *JPE*, June 1995,

B. Inflation and Unemployment

Branson, Chapters 19 and 20.

Friedman, M. "The Optimum Quantity of Money." In The Optimum Quantity of Money and Other Essays. Chicago: Aldine Publishing Co., 1969.

Laidler, D. and M. Parkin "Inflation: A Survey." Economic Journal, 85 (1975), 741-809. Also in Korliras and Thorn, Modern Macroeconomics: Major Contributions to Contemporary Thought (Harper and Row, 1979).

Tobin, J. "Inflation and Unemployment." American Economic Review, 62 (1972), 1-18. Also in Korliras and Thron.

Gordon, R. J. "Recent Developments in the Theory of Inflation and Unemployment." Journal of Monetary Economics, 2 (1976), 185-219. Also in Korliras and Thron.

Santomero, A. and J. Seater. 'The Inflation-Unemployment Trade-Off: A Critique of the Literature.' Journal of Economic Literature, 16 (June, 1978).

McGee, R. T. "A Graphical Exposition of a More Complete Keynesian System." Journal of Macroeconomics, 3 (Fall, 1981), 559-570.

Azariadis, C. 'Implicit Contracts and Underemployment Equilibria.' Journal of Political Economy, 83 December, 1975), 1183-1202.

C. The "New" Classical Economics: Rational Expectations model

1. Introduction to Rational Expectations Model

Branson, Chapter 11

Scarth, Chapters 5-6

Blanchard, O. (1990), "Why does money affect output? A survey". in B.M. Friedman and F.H. Hahn (eds.) Handbook of Monetary Economics, Amsterdam: North Holland.

Lucas, R. Jr. (1973), "Some International Evidence on Output-Inflation Tradeoffs", American Economic Review, Vol. 63, pp.326-334.

Lucas, R. Jr. (1975), "An Equilibrium Model of the Business Cycle", Journal of Political Economy, Vol. 83, pp.1113-1144.

Lucas, R. Jr. (1976), "Économetric Policy Evaluation: A Critique", in K. Brunner and A.H. Meltzer (eds), The Phillips Curve and Labor Markets, Amsterdam: North Holland.

Lucas, R. Jr. (1977), "Understanding Business Cycles", in K. Brunner and A.H. Meltzer (eds), Stabilization of the Domestic and International Economy, Amsterdam: North Holland.

2. Rational Expectations Models Challenged

Modigliani, F. "The Monetarist Controversy or, Should We Foresake Stabilization Policies?" American Economic Review, 69 (1977), 1-19. Also in Korliras and Thorn.

Solow, R. M. "Alternative Approaches to Macroeconomic Theory: A Partial View." Canadian Journal of Economics, 12 (August, 1977), 339-354.

Friedman, B. J. "Optimal Expectations and the Extreme Information Assumptions of Rational Expectations Macromodels." Journal of Monetary Economics, 5 (January, 1979), 23-42.

D. Economic Growth

Branson, Chapters 23-27

Scarth, Chapter 11

Solow, R. (1956), "A Contribution to the Theory of Economic Growth", Quarterly Journal of Economics, Vol. 70, pp.65-94.

Mankiw, G. (1995), "The Growth of Nations", Brookings Papers on Economic Activity, pp.275-326.

Mankiw, N.G., Romer, D. and Weil, D. "A Contribution to the Empirics of Economic Growth", QJE 107, May 1992, 407-437.

Romer, P. (1986), "Increasing Returns and Long Run Growth", Journal of Political Economy, Vol. 94, pp.1002-1037.

Romer, P. (1990), "Endogenous Technological Change", Journal of Political Economy, Vol. 98, pp. S71-102.

Aghion, P., Caroli, E. and Carcia-Penalosa, C. (1999), "Inequality and Economic Growth: The Perspective of the New Growth Theories", Journal of Economic Literature, Vol. 37, pp.1615-1660.

Ventura, J. "Growth and Interdependence", QJE, February 1997, 112-1, 57-84.