

Advanced Macroeconomics: Part 2

General Information and Schedule

This course is part of the new Ph.D. program in Economics at Goethe University of Frankfurt as well as the Graduiertenkolleg in Finance and Monetary Economics. It is open to doctoral students in the Ph.D. Program, members of the Graduiertenkolleg and other doctoral students in the Faculty of Economics and Business. Advanced students in the Diplomstudium will also be admitted after discussion with the instructor but will need to fulfill the same course requirements as doctoral students. This course builds on Advanced Macroeconomics: Part 1 taught in the first half of the winter semester 2004/5 by Dr. Klaus Adam. Doctoral students that seek credit for Advanced Macroeconomics in the Ph.D. Program or Graduiertenkolleg will receive a joint grade based in the final exam administered by Dr. Adam and the final exam for the second part of the course to be administered end of the semester.

Time: Mondays, 12:15 to 13:45, Tuesdays, 10:15-11:45

Location: 120 B

First Lecture: Tuesday, December 14, 2004

Office Hours: From December 20 onwards, Monday, 15:00–16:00 by appointment only, Room 118 B.

Announcements: Website and 'Schaukasten' in front of 117C

Contact: 069 798 25290

Email: wieland@wiwi.uni-frankfurt.de

Registration: Please send an email to geldpolitik@wiwi.uni-frankfurt.de to confirm that you plan to take this course and wish regular information. Include your matrikelnummer, status (Ph.D. program, GK, Chair, Diplom-student, ...) and full name.

Ph.D. Students

For members of the Ph.D. Program this is a required course. Also for members of the Graduiertenkolleg in “Finance and Monetary Economics” this is one of the four required methodological courses. Grading is according to the same system as in U.S. graduate programs in Economics (A+,A, A-,B+,B,B-,C). To pass the course you need to obtain at least a B-.

Course Requirements

Throughout the course a few problem sets will be offered to allow you to study and apply the various models and concepts in practice. There will be study sessions taught by Keith Kuester where solutions to the problem sets will be discussed. The course grade will depend on the final exam and to a small extent on the problem sets turned in to Keith. Further details will be provided in the first study section. The date will be announced.

Content and Objective

Macroeconomic analysis is primarily concerned with two issues: (i) developing positive models in order to understand the dynamics of key macroeconomic variables such as output, employment, unemployment, inflation, interest rates, etc.; and (ii) deriving normative prescriptions for macroeconomic policymaking, in particular regarding the proper setting of fiscal and monetary policies.

The course begins with a discussion of empirical facts regarding business cycles and growth to be explained by macroeconomic models and then provides an example of policy analysis based on a traditional reduced-form model of the macro-economy. The second part of the course deals in more detail with several building blocks for macroeconomic models with microeconomic foundations. We study models of consumption based on dynamically optimal decision-making. Then we will move on to discuss asset pricing, optimal investment by profit-maximizing firms and economic growth.

The third part of the course goes on to consider two types of models of the macro-economy that have been used extensively in recent years. First, we study real business cycle models with flexible prices. Then, we review different mechanisms for introducing price rigidities in macroeconomic models and we proceed to study the new-Keynesian workhorse model with price rigidities, rational expectations and optimizing decision-making by private sector agents. In the fourth and final segment of the course we study the some policy applications using the macroeconomic models discussed in the course. Examples, are monetary policy rules and monetary policy design under uncertainty.

In terms of mathematical tools, we will take advantage of the in-depth introduction in linear rational expectations models and dynamic programming provided by Dr. Adam in Advanced Macroeconomics: Part I.

Reading

The lectures will be partly based on selected chapters of several standard macroeconomic textbooks and partly on relevant papers from the literature. In terms of papers there will be a mix of classic, seminal references and recent work that indicates the current research frontier.

Selected chapters of the following books will be required reading for the course:

Romer, D., Advanced Macroeconomics, McGraw Hill, 2001.

Ljungqvist, L. and T. Sargent, Recursive Macroeconomic Theory, MIT Press, 2000 (1st or 2nd edition).

Walsh, C., Monetary Theory and Policy, MIT Press, 2003, 2nd edition.

These books will be set aside for course participants at the WiWi-Library. I recommend obtaining Romer as your basic text. However, in this course we will go beyond the level of the book by Romer, and Ljungqvist and Sargent will be a useful secondary text. Further required as well as recommended readings from the recent

macroeconomic literature will be announced during the course. A folder with copies will be provided in the secretariat 119B and in the library.

Short Outline

1. Introduction

- Explaining Economic Growth and Business Cycles
- Providing Prescriptions for Macroeconomic Policy: An Example

2. Building Blocks for Macro-Models with Micro-Foundations

- Neoclassical Growth Model (covered in Part 1)
- Consumption
- Asset Pricing
- Investment

3. Modeling the Macro-Economy

- Real Business Cycle Models
- Price Rigidities and Monopolistic Competition
- The New-Keynesian Model

4. Policy Applications

- Monetary policy rules
- Monetary policy design under uncertainty

Schedule of Lectures

Tuesday, December 14

Monday, December 20

Tuesday, December 21

Monday, January 3

Tuesday, January 4

Monday, January 10

Tuesday, January 11

Monday, January 17

Tuesday, January 18

Monday, January 24

Tuesday, January 25

Monday, January 31

Tuesday, February 1

Monday, February 7

Tuesday, February 8

Schedule of Classes

Wednesday, December 22, 10-12

Thursday, January 6, 16-18

Thursday, January 20, 16-18

Thursday, February 3, 16-18

Thursday, February 10, 16-18