

WANG YANAN INSTITUTE OF STUDIES IN ECONOMICS
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Macroeconomics II
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Course Description

This course will attempt to cover a wide range of related topics central to modern macroeconomics. The material covered will include purely technical developments used in modern macro analysis, and of course, empirically motivated papers. I will also attempt to cover the fundamental knowledge of computational skills students need to be familiar with. The class will meet on Tuesday and Thursday from 10:00 to 11:40 in Economic Building A201.

Course Requirement and Student Evaluation

Students are required to present one research paper in class (from the following reading list). The choice of papers has to be approved by the instructor. **And only the papers incited with bold letters are available for the presentations of students.** Each student has to submit a term paper before the end of this semester. Student evaluation will be based on the presentations(40%), term paper(40%), problem sets(10%) and class participation(10%).

1 Real Business Cycles

1.1 Represent Macro Data and Empirical Facts

1. BP Filter: Baxter and King (1999); Stock and Watson (1999)
2. HP Filter: Cooley and Prescott (1995)

1.2 Models

1. Basic model: Prescott (1986)
2. Computation: Schmitt-Grohe and Uribe (2004)
3. Capital adjustment cost: **Kydland and Prescott (1982)**
4. Employment Fluctuations: **Cho and Cooley (1994)**
5. Consumer Durables
 - (a) Home production: Baxter and Jermann (1999)
 - (b) Dynamics of Consumer Durables:
 - empirical: Green (1997)
 - model: **Gomme and Rupert (2007)**

1.3 Asset Pricing

Equity premium puzzle: Mehra and Prescott (1985)

Solutions:

1. Habit formation in exchange economies: **Campbell and Cochrane (1999)**
2. Habit formation in production economies: **Jermann (1998)**

2 Monetary Economics

2.1 Empirical Evidence on the Effects of Monetary Policy

1. Long-run Empirical Regularities:
 - George T. McCandless and Weber (1995)
 - Rapach (2003)**
2. Short-run Empirical Regularities:
 - King and Watson (1996)
3. What do Monetary Policies do:
 - Taylor Rule: Taylor (1993)
 - Clarida, Gali and Gertler (1999)**

2.2 Review of Basic Monetary Frameworks

1. Money-in-the-Utility Function Model:
2. The Cash-in-Advance Model:
3. Search Theory:

3 International Finance

4 Labor Economics

5 Heterogenous-Agent Model

6 Optimal Taxation and Fiscal Policy

References

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- and **Urban J. Jermann**, “Household Production and the Excess Sensitivity of Consumption to Current Income,” *American Economic Review*, September 1999, *89* (4), 902–920.
- Campbell, John Y. and John Cochrane**, “Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior,” *Journal of Political Economy*, April 1999, *107* (2), 205–251.
- Cho, Jang-Ok and Thomas F. Cooley**, “Employment and hours over the business cycle,” *Journal of Economic Dynamics and Control*, March 1994, *18* (2), 411–432.
- Clarida, Richard, Jordi Gali, and Mark Gertler**, “The Science of Monetary Policy: A New Keynesian Perspective,” NBER Working Papers, National Bureau of Economic Research, Inc May 1999.
- Cooley, Thomas F. and Edward C. Prescott**, “Economic Growth and Business Cycles,” in Thomas F. Cooley, ed., *Frontiers of business cycle research*, Princeton University Press, 1995, chapter 1.
- Gomme, Paul and Peter Rupert**, “Theory, measurement and calibration of macroeconomic models,” *Journal of Monetary Economics*, March 2007, *54* (2), 460–497.
- Green, Richard K.**, “Follow the Leader: How Changes in Residential and Non-residential Investment Predict Changes in GDP,” *Real Estate Economics*, Summer 1997, *25* (2), 253–270.
- Jermann, Urban J.**, “Asset pricing in production economies,” *Journal of Monetary Economics*, April 1998, *41* (2), 257–275.

- King, Robert G and Mark W Watson**, “Money, Prices, Interest Rates and the Business Cycle,” *The Review of Economics and Statistics*, February 1996, 78 (1), 35–53.
- Kydland, Finn E. and Edward C. Prescott**, “Time to Build and Aggregate Fluctuations,” *Econometrica*, November 1982, 50 (6), 1345–70.
- McCandless, Jr. George T. and Warren E. Weber**, “Some monetary facts,” *Quarterly Review*, 1995, (Sum), 2–11.
- Mehra, Rajnish and Edward C. Prescott**, “The equity premium: A puzzle,” *Journal of Monetary Economics*, March 1985, 15 (2), 145–161.
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- Rapach, David E**, “International Evidence on the Long-Run Impact of Inflation,” *Journal of Money, Credit and Banking*, February 2003, 35 (1), 23–48.
- Schmitt-Grohe, Stephanie and Martin Uribe**, “Solving Dynamic General Equilibrium Models Using a Second-Order Approximation to the Policy Function,” January 2004, 28 (4), 755–775.
- Stock, James H. and Mark W. Watson**, “Business Cycle Fluctuations In US Macroeconomic Time Series,” in J. B. Taylor and M. Woodford, eds., *Handbook of Macroeconomics*, Vol. 1, Elsevier Science B.V., 1999, chapter 1.
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