This course is the first of a 2-semester sequence in macroeconomics. Its purpose is to:

- Introduce the basic choices (consumption/saving, investment, ...) and mechanisms of macroeconomics.
- Study their general equilibrium implications.
- Use this approach to think about fluctuations.
- Use this approach to think about growth.

The purpose of the second semester course (453-454) is to explore a number of important extensions (implications of uncertainty, of imperfections in labor, goods, financial markets), and point to what is currently understood about their general equilibrium implications.

This course assumes familiarity with macroeconomics at the level of undergraduate macro-textbooks (you will get much more out of the course if you are very familiar with macroeconomics at the intermediate undergraduate level.)

There is no textbook for the course. We shall however often use material from:

A number of other textbooks provide alternative treatments of a number of issues. The first, by David Romer, covers roughly the same issues at a slightly lower level than BF. The second, by Maurice Obstfeld and Kenneth Rogoff, focuses on open economy issues. The third and fourth, by Robert Barro and Xavier Sala-i-Martin, and by Philippe Aghion and Peter Howitt focus on growth:


Macroeconomics is a rapidly changing field. To get a sense of the geography, you may find it useful to read two recent surveys:

Olivier Blanchard, “What Do We Know About Macroeconomics that Fisher and Wicksell Did Not?”, mimeo MIT, 1999

Michael Woodford, “Revolution and Evolution in Twentieth–Century Macroeconomics”, mimeo Princeton, June 1999
http://www.princeton.edu/~woodford/macro20C.pdf

The course is organized around 12 topics. For each topic, we have included basic readings, as well as a few papers showing applications or extensions of the basic model. A star denotes required reading.

### 1. THE CONSUMPTION/SAVING CHOICE

Focus on the consumption/saving choice, with implications for capital accumulation. The Ramsey model, with centralized or decentralized interpretations. The role of the term structure of interest rates in clearing the goods market. Introducing the government. Ricardian equivalence.

☆ BF, Chapter 2-1 to 2-3, 2-5 (OR, Chapter 1-1; DR, Chapter 2-A; BS, Chapter 2).
2. THE INVESTMENT DECISION.

Introducing adjustment costs to capital accumulation in the Ramsey model. Centralized and decentralized interpretations. The q theory. The stock market and investment. Investment, saving, and the current account in a small open economy.

BF, Chapter 2-4 (DR, Chapter 8; OR, Chapter 1, Chapter 2-1, 2-2, 2-5).


3. FINITE HORIZONS.


BF, Chapter 3, 5-1, 5-2 (DR, Chapter 2-B; OR, Chapter 3; BS Chapter 3-4 and appendix).


4. INTRODUCING TWO GOODS.

What if foreign goods and domestic goods are imperfect substitutes? What if some goods are tradable and others not? Revisiting saving, investment,
and the current account. Movements in the terms of trade, in the real exchange rate.


http://www.jstor.org/fcgi-bin/jstor/viewitem.fcgi/00223808/di951017/95p0044c/0?

5. INTRODUCING MONEY.


☆ BF, Chapter 4-3 to 4-7, and 10-2. (DR, Chapter 9-7; OR Chapter 8).


6. FLUCTUATIONS I. LOOKING AT THE FACTS.

Shocks and Propagation mechanisms. Wold representation. ARMA$s$, VAR$s$, SVAR$s$. Stochastic trends. Covariances. The co-movement of the components of GDP. The correlations of output and money. The correlation between real wages and output. What if the economy is non linear? What if there are multiple equilibria?

☆ BF, Chapter 1.

http://papers.nber.org/papers/w6528


7. FLUCTUATIONS II. RBCS AND SHOCKS TO TECHNOLOGY.

Dynamic effects of technological shocks. Endogenizing labor supply. The cyclical behavior of total factor productivity growth.

BF, Chapter 7.


8. FLUCTUATIONS III. MONEY, AGGREGATE DEMAND, AND OUTPUT.


9. FLUCTUATIONS IV. GOODS, FINANCIAL AND LABOR MARKETS.


http://papers.nber.org/papers/w5875

http://papers.nber.org/papers/w7147


http://www.princeton.edu/~woodford/chap2.pdf

http://papers.nber.org/papers/w7302

http://www.jstor.org/fcgi-bin/jstor/viewitem.fcgi/00028282/di950072/95p0130h/0?

http://papers.nber.org/papers/w5332

http://papers.nber.org/papers/w7207

Krugman, P. “It is baaack: Japan's Slump and the Return of the Liquidity Trap”, BPEA, 1998-2, 137-205.

10. FLUCTUATIONS V. BACK TO THE OPEN ECONOMY.

http://www.jstor.org/fcgi-bin/jstor/viewitem.fcg/00223808/di950977/95p0113p/0?


11. GROWTH I. CAPITAL ACCUMULATION AND TECHNOLOGICAL PROGRESS.


BS. Chapter 4-1, 4-2 (DR, Chapters 1 and 3B, AH 1-4, 1-5).

http://www.jstor.org/fcgi-bin/jstor/viewitem.fcg/00335533/di951743/95p0039f/0?


http://www.jstor.org/fcgi-bin/jstor/viewitem.fcg/00335533/di976338/97p00385/0?

Ventura, J. “Growth and Interdependence”, *QJE*, February 1997, 112-1, 57-84.

http://www.jstor.org/fcgi-bin/jstor/viewitem.fcg/00335533/di971081/97p0038r/0?

OR, Chapter 7.
12. GROWTH II. FOCUSING ON TECHNOLOGICAL PROGRESS.


☆ DR Chapter 3A (BS, Chapters 6 to 8).

☆ AH Chapter 2.
