Macroeconomic Theory I and II

This course is the first part of a two-semester graduate sequence in macroeconomics. Its purpose is to introduce the basic models macroeconomists use to study economic growth and fluctuations. The second part of the sequence (14.453 and 14.454) critically re-examines some of the building blocks of these models and explores the implications of existing alternatives. Students are expected to be familiar with macroeconomics at the intermediate undergraduate level.

The TA for the first half of the course is Guido Lorenzoni (glorenzo@mit.edu). The TA for the second half is Augustin Landier (landier@mit.edu). The course web page can be accessed from [http://web.mit.edu/blanchar/www/courses.html](http://web.mit.edu/blanchar/www/courses.html) and [http://web.mit.edu/jaume/www/courses.html](http://web.mit.edu/jaume/www/courses.html)

There are no textbooks for the course. However, we shall use material from:


Both textbooks have been ordered at the Coop. Students may also want to consult the following textbooks:


These textbooks provide alternative treatments of many of the topics in this course. The first one, by David Romer, covers roughly the same issues as BF, but at a slightly lower level. The second one, by Maurice Obstfeld and Kenneth Rogoff, focuses on open economy issues. The third one, by Philippe Aghion and Peter Howitt, covers much of the material in BS, but it puts more emphasis on the Schumpeterian growth model than on the Ramsey growth model.
Macroeconomics is a rapidly changing field. To get a sense of the geography, you might find it useful to read two recent surveys:


Reading List

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

0. Introduction

The Solow and Ramsey models. Applications to growth and fluctuations. A guide to this course.

* BF, Chapter 2 (skip section 2.4)

* BS, Chapter 1 (skip section 1.3); Chapter 2; and the appendix on mathematical methods


Part 1: Economic Growth

1.1 Basic Growth Models


* BS, Chapters 4-7

Romer, P. M., “Increasing Returns and Long-Run Growth,” JPE, October 1986, 94, 5, 1002-1037


Barro, R.J., “Government Spending in a Simple Model of Endogenous Growth” JPE, October 1990, 98, 5, part 2, 103-125


Romer, P.M., “Endogenous Technological Change” JPE, October 1990, 98, 5, part 2, 71-102


1.2 Savings and Fiscal Policy


* BF, Chapter 3, sections 3.1 and 3.2; Chapter 4, section 4.1 and Chapter 5, sections 5.1 and 5.2


Samuelson, P.A., “An Exact Consumption Loan Model of Interest with and without the Social Contrivance of Money” JPE, December 1958, 66, 6, 467-482


* Barro, R.J., “Are Government Bonds Net Wealth?” JPE, December 1974, 82, 6, 1095, 1117

1.3 The Cross-country Evidence


* Pritchett, L., “Divergence, Big Time” JEP, Summer 1997, 11, 3, 3-17
1.4 Capital Flows, Trade and Technology Transfer

The effects of capital flows on growth and the world income distribution. Why doesn’t capital flow from rich to poor countries? The role of commodity trade: Rybcyncki and terms-of-trade effects. Learning-by-doing and leapfrogging. Models of technology transfer and imitation.

* BF, Chapter 3, sections 3.3 and 3.4
* BS, Chapter 3, sections 3.1 and 3.4

Blanchard, O., “Debt, Deficits and Finite Horizons” JPE, April 1985, 93, 2, 223-247


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


Grossman, G.M. and E. Helpman, “Comparative Advantage and Long-Run Growth” AER, September 1990, 80, 4, 796-815

* Krugman, P.R., “A Model of Innovation, Technology Transfer, and the World Distribution of Income” JPE, April 1979, 87, 2, 253-266


**Part 2: Economic Fluctuations**

**2.1 Cycles and Trends: Some Facts**

Shocks and propagation mechanisms. Wold representation. ARMAs, VARs, SVARS. Stochastic trends. Covariances. The co-movement of GDP components. The correlations of output and money. The correlation between real wages and output.

* BF, Chapter 1


2.2 Technological Shocks?

Dynamic effects of technological shocks. Endogenizing the labor supply. The cyclical behavior of total factor productivity growth. Booms, rents, and incentives. Implementation cycles and the current high tech boom.

* BF, Chapter 7


* Campbell J., Inspecting the Mechanism: An Analytical Approach to the Stochastic Growth Model, JME, 33, June 1994, 463-506


Shleifer, A., “Implementation Cycles” JPE, 94-6, December 1986, 1163-1190

2.3 Money and Nominal Rigidities


* BF, Chapter 4, sections 4.3 to 4.7; and Chapter 10, section 10.2


2.4 Tools for the Road: ISLM, IS-PC-IR, Mundell-Fleming

Looking at equilibrium in goods, labor, and financial markets. Expectations, investment, and consumption. The stock market and output. The perverse effects of
fiscal policy. Liquidity traps and monetary policy. Exchange rates, interest rates, and output. Monetary policy and inflation targeting.


Woodford, M., “A neo-Wicksellian framework for the analysis of monetary policy” Chapter 4, Sections 1 and 2, mimeo Princeton, September 2000


* Krugman, P. “It is baaack: Japan's Slump and the Return of the Liquidity Trap” BPEA, 1998-2, 137-201


Tobin, J. “Keynesian models of recession and depression” AER, 65-2, May 1975, 195-202

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


Jeanne, O. “Currency Crises: A Perspective on Recent Theoretical Developments,” CEPR DP 2170, June 1999