

Economics 208: Macroeconomics II

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Grades:

There are two exams, the first one on March 13, the second on May 3. Each exam counts for 45 percent of the final grade. The other 10 percent of will be based on your score in homework assignments.

Reading Materials:

The readings for the course come partly from journal articles accessible online through the Library or Jstor, partly from articles on my website http://www.brown.edu/fac/Peter_Howitt, and partly from the following books:

- Blanchard, Olivier and Stanley Fischer. *Lectures on Macroeconomics*. MIT Press, 1989.
- Ljungqvist, Lars and Thomas Sargent. *Recursive Macroeconomic Theory*, 2nd ed. MIT Press, 2004.
- Mankiw, N. Gregory and David Romer (eds.) *New Keynesian Economics*. MIT Press, 1991.
- Romer, David. *Advanced Macroeconomics*, 3rd edition. McGraw-Hill Irwin, 2006.
- Walsh, Carl. *Monetary Theory and Policy*, 2nd ed. MIT Press, 2003.
- Woodford, Michael. *Interest and Prices*. Princeton University Press, 2003.

There is much more on this reading list than you will be able to go through this semester. I made the list this way to give you multiple windows into the same material. I will try to indicate as we go through which references are most relevant for which lectures. My website has information about the course, including notes and problem sets.

1. Innovation-based Models of Growth

- Romer, ch. 3, part A
- Aghion, Philippe, and Peter Howitt, "A Model of Growth Through Creative Destruction," *Econometrica* 60 (March 1992)
- Aghion, Philippe, and Peter Howitt, *Endogenous Growth Theory*, MIT Press, 1998, ch. 2.
- Aghion, Philippe, Peter Howitt and David Mayer-Foulkes. "The Effect of Financial Development on Convergence: Theory and Evidence." *QJE* 120 (February 2005).
- Aghion, Philippe and Peter Howitt. "Growth with Quality-Improving Innovations: An Integrated Framework." In *Handbook of Economic Growth*, edited by Philippe Aghion and Steven N. Durlauf. Amsterdam.

- Aghion, Philippe and Peter Howitt. "Appropriate Growth Policy: An Integrating Framework." *Journal of the European Economic Association*, 4 (April-May 2006): 269-314.
- Aghion, Philippe, and Peter Howitt, *New Growth Economics: Theory, Evidence and Policy*, drafts of chapters 4 ~ 9.
- Howitt, Peter, "Endogenous Growth and Cross-Country Income Differences," *American Economic Review* 90 (September 2000).
- Jones, Charles I., "R&D-Based Models of Economic Growth," *Journal of Political Economy* 103 (August 1995): 759-84.

2. Money and Prices

- Romer, ch. 10, sections 1, 2, 8 and 9
- Blanchard and Fischer, chs 4, 5.
- Diamond, Peter A. "National Debt in a Neoclassical Growth Model." *American Economic Review* 55 (1965): 1126-50.
- Howitt, Peter. "Beyond Search: Fiat Money in Organized Exchange." *International Economic Review* 46(2) (May, 2005)
- Kiyotaki, Nobuhiro, and Randall Wright, "A Search-Theoretic Approach to Monetary Economics," *American Economic Review* 83 (Mar. 1993): 63-77.
- Ljungqvist and Sargent, chs. 8, 9, 24 and 25.
- Samuelson, Paul A., "An Exact Consumption-Loan Model of Interest With or Without the Social Contrivance of Money," *Journal of Political Economy* 66 (Dec. 1958).
- Walsh, chs 2 ~ 4.
- Woodford, ch 2.

3. Nominal Rigidities and Economic Fluctuations

- Romer, chs 5, 6.
- Blanchard and Fischer, chs 8, 10.4, 10.3
- Ball, Laurence and David Romer. "Real Rigidities and the Non-Neutrality Of Money." *Review of Economic Studies*, 57(2), 1990. (Reprinted in Mankiw and Romer)
- Estrella, Arturo and Jeffrey C. Fuhrer, "Dynamic Inconsistencies: Counterfactual Implications of a Class of Rational-Expectations Models." *American Economic Review* 92 (September 2002): 1013-28.
- King, Robert, "The New IS-LM Model: Language, Logic, and Limits," Federal Reserve Bank of Richmond *Economic Quarterly* (Summer 2000).
- Rotemberg, Julio and Michael Woodford, "An Optimization-Based Econometric Framework for the Evaluation of Monetary Policy," In *NBER Macroeconomic Annual 1997*. MIT Press.
- Walsh, chs. 5 ~ 7.
- Woodford, ch 3.

4. Macroeconomic Policy

Romer, 10.3 ~ 10.7

Blanchard and Fischer, 11.2 ~ 11.4

Clarida, Richard, Jordi Gali and Mark Gertler, "The Science of Monetary Policy: A New Keynesian Perspective." *Journal of Economic Literature* 37 (1999): 1661-1707.

Kydland, Finn and Edward Prescott. "Rules Rather Than Discretion: The Inconsistency of Optimal Plans." *Journal of Political Economy*, 87(3), 1977.

Lucas, Robert E. "Econometric Policy Evaluation: A Critique." *Carnegie-Rochester Conference Series on Public Policy*, 1:19-46, 1976.

Walsh, 8 ~ 11.

5. Expectations, Learning and Monetary Policy

Evans, George and Seppo Honkapohja, *Learning and Expectations in Macroeconomics*. Princeton University Press, 2001, chs. 1,2.

Howitt, Peter "Interest Rate Control and Nonconvergence to rational Expectations Equilibrium," *Journal of Political Economy*, 100 (August 1992).

Howitt, Peter, "Monetary Policy and the Limitations of Economic Knowledge," unpublished
Sargent, Thomas J. *Bounded Rationality in Macroeconomics*, Oxford: Clarendon Press, 1993
ch.4, pp.54-81.

Woodford, ch 4.

6. Unemployment, Search and Coordination Failure

Romer, ch. 9.

Blanchard and Fischer, Section 9.5.

Ljungqvist and Sargent, chs. 6 and 26.

Shapiro, Carl and Joseph E. Stiglitz. "Equilibrium Unemployment as a Worker-Discipline Device." *American Economic Review* 74(2), 1984. (Reprinted in Mankiw and Romer)

Diamond, Peter. "Aggregate-Demand Management in Search Equilibrium." *Journal of Political Economy*, 90(5), 1982. (Reprinted in Mankiw and Romer)

Cooper, Russell and Andrew John. "Coordinating Coordination Failures in Keynesian Models." *Quarterly Journal of Economics*, 103(6), 1988. (Reprinted in Mankiw and Romer)