COURSE SYLLABUS

Macroeconomic Theory II

Instructor: Balázs Világi

Semester/term, year: Winter 2017

Course level: First year MA compulsory course

No.of Credits (no. of ECTS Credits): 5 CEU credits (10 ECTS)

Pre-requisites: Macroeconomic Theory I

Course e-learning site: http://ceulearning.ceu.hu/

Office hours: After lectures or by appointment: vilagib@mnb.hu

Course Description:
The course is aimed at providing a basic background in the field of graduate macroeconomics. The focus will be on real and monetary models of the business and financial cycle and their policy implications. The main aim of this course is to acquaint students with the modern macro theory at a graduate level and to give them the tools necessary to be able to take more advanced, topic-specific, macro courses.

Learning Outcomes:
i) understanding of the general framework used to study macro issues in modern macro ii) development of technical skills that enable students to critically evaluate core papers in the field, iii) development of skills that enable students to apply what they have learned to everyday macro issue they can find in economic newspapers.

Course Requirements:
Grading will be based on midterm and final examinations (85%) and on bi-weekly homeworks (15%).

COURSE SCHEDULE

This course is designed for first year master students and, therefore, it is aimed at providing a basic background in the field of graduate macroeconomics. During *Macroeconomics I* students familiarized with the basic models for economic growth, consumption and investment theory and labor markets. *Macroeconomics II* builds up on the technical skills acquired during the first course and studies more in details the modern theory of business cycle. In particular, the course is divided into four parts. The first part focuses on frictionless models, especially on the *real business cycle literature*. The second part studies the relation between real and nominal variables presenting basic

models with nominal rigidities (*New Keynesian* models). The third part studies the *financial cycle*, discusses the role of *financial frictions* and *financial intermediation* in macroeconomic fluctuations and considers their policy implications.

Weekly Breakdown

(*) indicates firmly recommended literature

PART 1: FRICTIONLESS (NEW CLASSICAL) MODELS

Week 1-2 (4 lectures)

The real business cycle model

- (*) King, R.G. and S.T. Rebelo (1999): "Resuscitating Real Business Cycles" in J.B. Taylor and M. Woodford, eds., *Handbook of Macroeconomics*, volume 1B, 928-1002, Elsevier.
- (*) Hartley J.E., K.D.Hoover and K.D. Salyer (1997). "The Limits of Business Cycle Research: Assessing the Real Business Cycle Model", *Oxford Review of Economic Policy*, 13(3), 34-54.

- Blanchard, O. and C. Kahn (1980): "The Solution of Linear Difference Models under Rational Expectations", *Econometrica*, 48, 1305-1311.
- Harvey and Jagger (1993). Detrending, Stylized Facts and the Business Cycle, *Journal of Applied Econometrics*, 8(3), 231-247
- Juselius, K. and M. Franchi (2007). "Taking a DSGE Model to the Data Meaningfully", *The Open-Access, Open-Assessment E Journal*, Economic Discussion Paper 2007-6
- Stock, J., and M. W. Watson (1999): "Business Cycle Fluctuations in U.S. Macroeconomic Time Series", in J.B. Taylor and M. Woodford, eds., *Handbook of Macroeconomics*, volume 1A, 3-64, Elsevier (also NBER WP 6528).
- Uhlig, H. (1999). "A Toolkit for Analysing Nonlinear Dynamic Stochastic Models Easily", in R. Marimon and A. Scott (eds.) *Computational Methods of Dynamic Economies*, Oxford University Press.

PART 2: MONETARY ECONOMICS IN NEW KEYNESIAN FRAMEWORK

Week 3-4 (4 lectures)

The New Keynesian model

- (*) Galí, J. (2008). *Monetary Policy, Inflation and the Business Cycle*, Princeton University Press. Chapter 3.
- (*) Walsh, C.E. (2003). *Monetary Theory and Policy*, MIT Press. Chapter 1.

- Calvo ,G. (1983). "Staggered Prices in a Utility Maximizing Framework", *Journal of Monetary Economics*, vol. 12.
- Christiano, L.J., M. Eichenbaum and C:L: Evans (1998). "Monetary policy Shocks: What Have We Learned and to What End?", *Handbook of Macroeconomics*, J.B. Taylor and M. Woodford eds., vol. 1A, Elsevier.
- Goodfriend, M. and R. G. King (1997). "The new neoclassical Synthesis and the Role of Monetary Policy", *NBER Macroeconomic Annual*.
- Mankiw, N.G. and R. Reis (2002). "Sticky Information Versus Sticky Prices: A Proposal To Replace The New Keynesian Phillips Curve" *Quarterly Journal of Economics*, 117(4).
- Taylor, J.B. (1980). "Aggregate Dynamics and Staggered Contracts", *Journal of Political Economy*, 88(1).

Week 5-6 (4 lectures)

Monetary policy conduct: optimal monetary policy and simple rules

- (*) Galí, J. (2008). *Monetary Policy, Inflation and the Business Cycle*, Princeton University Press. Chapter 4 and 5.
- (*) Clarida R., J. Galí and M. Gertler (1999). "The Science of Monetary policy: A New Keynesian Perspective*", Journal of Economic Literature*, 37(4).

- Clarida R., J. Galí and M. Gertler (2000). "Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory", *Quarterly Journal of Economics*, 105(1).
- Svensson, L.E.O. (1997). "Inflation Forecast Targeting: Implementing and Monitoring Inflation Targets", *European Economic Review*, 41.
- Taylor, J.B. (1993). "Discretion versus Policy Rules in Practice", *Carnegie-Rochester Series on Public Policy*, 39.

PART 3: FINANCIAL CYCLES AND CRISES

Week 7 (2 lectures)

Financial cycles and hysteresis

- (*) Blanchard, O., E. Cerutti and L. Summers (2015) "Inflation and activity − two explorations and their monetary policy implications", ECB Forum on Central Banking, Sintra, Portugal.
- (*) Dell'Ariccia, G., D. Igan, L. Laeven and H. Tong, with B. Bakker and J. Vandenbussche (2012). "Policies for Macro Financial Stability How to Deal with Credit Booms", IMF Staff Discussion Note, SDN/12/06.
- (*) Drehmann M., C. Borio and K. Tsatsaronis (2012) "Characterising the Financial Cycle: Don't Lose Sight of the Medium Term!", BIS Working Paper 380.

- (*) Jordà,O. M. Schularick and A. Taylor (2015). "Leveraged bubbles", NBER Working Paper 21486.
- (*) Borio, C., (2012). "The Financial Cycle and Macroeconomics: What Have We Learnt?", BIS Working Paper 395.

Week 8 (2 lectures)

Bubbles

- (*) Blanchard, J.O. és S. Fischer (1989). *Lectures on Macroeconomics*, MIT Press. Chapter 5.1-5.2.
- (*) De Grauwe, P. (2012). *Lectures on Behavioral Macroeconomics*, Princeton University Press.
- (*) De Grauwe, P. and M. Grimaldi (2006). *The Exchange Rate in a Behavioral Finance Framework*, Princeton University Press.

- Akerlof, G. A. and R.J. Shiller (2009). *Animal Spirit*, Princeton University Press.
- Shiller, R.J. (2005). *Irrational Exuberance*, Princeton University Press. Chapter 1, 2.

Week 9 (2 lectures)

Systemic financial crises

- (*) Allen, F. and D. Gale (2007). *Understanding Financial Crises*, Oxford University Press. Chapter 3.
- (*) Brunnermeier, M.K. (2009). "Deciphering the Liquidity and Credit Crunch 2007–2008", *Journal of Economic Perspectives*, 23(1), Winter 77-100.
- (*) Gorton, G.B. (2012). "Slapped in the Face by the Invisible Hand: Banking and the Panic of 2007", paper prepared for the Federal Reserve Bank of Atlanta's
- (*) Shin, H.S. (2009). "Reflections on Northern Rock: The Bank Run that Heralded the Global Financial Crisis*", Journal of Economic Perspectives*, 23(1), Winter 101-109.

- Gorton, G.B. (2010). *Slapped by the Invisible Hand: The Panic of 2007*, Oxford University Press.
- Gorton, G.B. (2012). *Misunderstanding Financial Crises – Why We Don't See Them Coming*, Oxford University Press.
- Krugman, P. (2008). *The Return of Depression Economics and the Crisis of 2008*, Penguin Books.
- Morris, S. and H.S. Shin (2008). "Financial Regulation in a System Context", *Brooking Papers on Economic Activity*, 2.
- Shin, H. S., (2010). *Risk and Liquidity*, Oxford University Press.

Week 10-11 (4 lectures)

The zero lower bound, the liquidity trap and fiscal policy

- (*) Cristiano, L., M. Eichenbaum and S. Rebelo (2011). "When Is the Government Spending Multiplier Large?", *Journal of Political Economy*, 119(1), 78-121.
- (*) Eggertsson, G.B. and P. Krugman (2012). "Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo approach", *Quarterly Journal of Economics*, 127(3), 1469-1513.
- (*) Eggertsson, G.B. and N.R. Mehrotra (2014). "A Model of Secular Stagnation", NBER Working Paper 20574.

- Krugman, P. (1998). "It's Baaack: Japan's Slump and the Return of the Liquidity Trap", *Brooking Papers on Economic Activity*,2:1998.

Week 12 (2 lectures)

Unconventional monetary policy

- (*) Gertler M. and P. Karadi (2011)."A Model of Unconventional Monetary Policy", *Journal of Monetary Economics*, 58(1), 17-34.
- (*) Gertler M. and P. Karadi (2013)."QE 1 vs. 2 vs. 3. . . : A Framework for Analyzing Large-Scale Asset Purchases as a Monetary Policy Tool", *International Journal of Central Banking*, January.