



Adv Macro II - ECON 8321
Tue 5:30-8:30 pm, 272 FCBE
Fall, 2009

Prof. Oleksandr Nikolsko-Rzhevskyy
www.nikolsko-rzhevskyy.com
nklrzhvs@memphis.edu

A. COURSE INFORMATION: We will meet each Tuesday from 5:50-8:30pm with a short break in the middle. This course is a highly theoretical course, which requires relatively advanced knowledge of math (which we will review during the first lecture). However, I will also try to introduce some empirics: mainly, I will point out some important papers, which you will read at home and discuss in class. As this course covers many advanced aspects of economics, it is highly recommended to actively engage in lectures, think critically, and ASK QUESTIONS.

B. CONTACT INFORMATION: The course webpage link is available at www.nikolsko-rzhevskyy.com. My office hours are on Tuesday, 3:00-4:30pm, and almost any other day/time I am at school – feel free to stop @ 415 FCBE whenever you have a question. My GA: Ioana Sofia Pacurar, ipacurar@memphis.edu.

C. READINGS: “Advanced Macroeconomics,” by David Romer, any edition, is the main text I will use. Barro & Sala-i-Martin's “Economic Growth” would be an excellent addition, at least for the growth part. Mankiw’s “Macroeconomics” explains many concepts and models at an intermediate undergraduate level. I would also highly recommend Prof. Vollrath’s free lecture notes, available @ <http://dietz.vollrath.googlepages.com/gradmacrobook07.pdf>. It’s recommended to use all these sources, but none of them is required for a good grade.

D. EXAMS: There will be 1 midterm exam (33%) and 1 comprehensive final exam (34%). Both are in-class exams. The midterm will be held on Oct 20 (may change), and the day of the final TBA.

E. HOMEWORK ASSIGNMENTS: There will be several homework assignments, usually, due weekly, which make up the last 33% of your grade. They will be both distributed in class and posted online on my website.

F. COURSE OUTLINE:

1. Math review: Barro & Sala-i-Martin, “Appendix on Mathematical Methods”
2. Growth models
 - a. The Solow model: Romer, Ch 1, Barro & Sala-i-Martin, Ch 1
 - i. Model setup & the dynamics of the model
 - ii. The effect of a change in the saving rate on the model
 - iii. Dynamically inefficient saving rate
 - iv. Growth rates and convergence
 - v. Theoretical and empirical problems with the Solow model
 - b. Endogenous growth models: Romer, Ch 3, Barro & Sala-i-Martin, Ch 4
 - i. The AK growth model
 - ii. The Human capital model
 - iii. The Harrod-Domar controversy
 - iv. Growth models with Poverty traps
 - c. Growth models with Consumer Optimization: Romer, Ch 2, Barro & Sala-i-Martin, Ch 2
 - i. Cass/Ramsey (model setup, solution, the effect of government purchases)

- ii. OLG models
- d. Open economy and growth: Romer, Ch 2, Barro & Sala-i-Martin, Ch 3
- 3. Monetary Policy (Note: you might need a later edition of "Romer" for this section)
 - a. Inflation, money growth and interest rates: Romer 10.1, 10.2
 - b. Discretion and the conduct of policy: Romer 10.3, 10.4
 - i. The dynamic inconsistency of low-inflation monetary policy
 - ii. Addressing the dynamic inconsistency problem through delegation
 - iii. How important are fluctuations in consumption?
 - c. Policy rules and the conduct of policy: Romer 10.5, 10.6, 10.7
 - i. The Taylor rule
 - ii. Deriving the Taylor rule
 - iii. Issues in estimating the Taylor rule
 - iv. Issues in the design of interest rate rules
 - v. The zero lower bound on the nominal interest rate

G. THE READING LIST:

1. Summers, Robert & Heston, Alan, 1991. "The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950-1988," *The Quarterly Journal of Economics*, MIT Press, vol. 106(2), pages 327-68, May.
2. Hall, Robert E, 1978. "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence," *Journal of Political Economy*, University of Chicago Press, vol. 86(6), pages 971-87, December.
3. John Y. Campbell & N. Gregory Mankiw, 1990. "Consumption, Income, and Interest Rates: Reinterpreting the Time Series Evidence," NBER Working Papers 2924, National Bureau of Economic Research, Inc.
4. Taylor, John, 1993. "Discretion versus Policy Rules in Practice," *Carnegie-Rochester Conference Series on Public Policy*, 39(1), 195-214.
5. Nikolsko-Rzhevskyy, Alex & David Papell, 2009, "Taylor Rules and the Great Inflation," working paper.
6. Orphanides, Athanasios, 2001. "Monetary Policy Rules Based on Real-Time Data," *American Economic Review*, 91(4), 964-985.
7. Laurence Ball, 1997. "Efficient Rules for Monetary Policy," NBER Working Papers 5952, National Bureau of Economic Research, Inc.