

Syllabus

EC 502 Macroeconomics Spring 2009

Course Overview:

Instructor:

Simon Gilchrist
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Room 404, 270 Bay State Road
Office Hours: W: 3:30-4:30, Tu: 10:00-12:00.

Course Description:

This course explores theoretical and empirical issues of central importance to macroeconomic research and policy. The major topics covered in this course include economic growth, consumption and savings, investment, business cycle fluctuations. The course also explores the relationship between monetary policy and output, and optimal monetary policy. The course examines the implications of macroeconomic theory for macroeconomic data. The course readings include selected chapters from the textbooks, class notes and original research articles.

Textbooks and Readings:

- Romer, David, *Advanced Macroeconomics*, McGraw-Hill Irwin, Third Edition. (Recommended)
- Abel, Andrew, Ben Bernanke, and Dean Croushore, *Macroeconomics*, Addison Wesley, Sixth Edition (Recommended)
- Lecture Notes and Readings will be posted on the courseinfo web page.

Course Requirements:

We will have a midterm and a final exam. There will be five to six homeworks given throughout the semester. The midterm accounts for 30% of your grade. The final exam accounts for 40% of your grade. Homeworks account for the remaining 30%. While you may work on homeworks with other students, each student must hand in their own homework to receive credit.

Course Topics:

Economic Growth:

- Production functions.
- The Solow Growth Model.
- Growth Accounting.
- Convergence and Growth.
- Readings:
 - Class Notes
 - Mankiw, N.G, D. Romer, and D.N. Weil, 1992, “On the Empirics of Economic Growth”, Quarterly Journal of Economics, Vol 107, No 2, 407-437.
 - Abel et al. Chapters 3 and 6.
 - Romer, Chapter 1.

Consumption and Savings:

- A two-period example.
- Consumption Smoothing and The Permanent Income Hypothesis.
- The Random Walk Theory of Consumption.
- Consumption and Interest Rates.
- Readings:
 - Class Notes.
 - Hall, JPE 1978
 - Abel et al. Chapter 4.
 - Romer Chapter 7.

Investment and Interest Rates:

- Investment and the User Cost of Capital.
- Stock Prices and Investment (Q Theory)
- Readings:
 - Class Notes
 - Abet et al. Chapter 4.
 - Romer Chapter 8.

Midterm Exam March 17th.

Real Business Cycles:

- Real Business Cycle Models.
- Empirical Implications
- Readings:
 - Class Notes.
 - Romer Chapter 4.
 - Abel et al. Chapter 8 and 10.

Inflation and Output:

- Markups and Imperfect Competition
- Price Adjustment and the Philips Curve
- An Equilibrium New Keynesian Model.
- Readings:
 - Class Notes
 - Abel et al. Chapter 7, 11 and 12.
 - Romer Chapter 5.

The Conduct of Monetary Policy:

- The Taylor Rule.
- Optimal Monetary Policy.
- Readings:
 - Class Notes
 - Clarida, R., M.Gertler and J. Gali, “The Science of Monetary Policy,” *Journal of Economic Literature*.
 - Abel et al. Chapter 14.
 - Romer Chapter 10.

Final Exam (see final exam schedule).

Tentative Schedule:

1. Jan 15th Production functions.
2. Jan 20th Solow Growth Model.
3. Jan 22nd Solow Growth Model.
4. Jan 27th Growth accounting.
5. Jan 29th Cross-country evidence on growth and convergence.
6. Feb 3rd Consumption - a two period example.
7. Feb 5th Consumption under uncertainty.
8. Feb 10th Consumption smoothing.
9. Feb 12th The Random Walk theory of Consumption
Feb 17th – no class, Monday schedule
10. Feb 19th Investment and the User Cost of Capital
11. Feb 24th Stock Markets and Investment
Feb 26th - no class
March 3rd - no class
12. March 5th Investment and Finance
March 10th – spring break
March 12th - spring break
13. March 17th Midterm Exam.
March 19th Business Cycles
14. March 24th Real Business Cycle Models
15. March 26th Productivity and Output
16. March 31st Government Spending and Output
17. April 2nd Markups and imperfect competition
18. April 7th Price adjustment and the Phillips Curve
19. April 9th An equilibrium New Keynesian Model
20. April 14th Fiscal Stimulus in a New Keynesian Model
21. April 16th The conduct of monetary policy

22. April 21st The Taylor Rule
April 23rd – Monday class
23. April 28th Liquidity Traps
24. April 30th Banking, Finance and Monetary Policy