

Carleton University
Department of Economics
Course Outline and Reading list
Macroeconomic Theory: Econ 5002

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Winter 2009

Office: Loeb A801

Hours: Tuesday: 2:30-4:00

Thursday: 12:30-1:30 (or after class)

Grading: Midterm, Wednesday February 11th

40 %

Final examination, in the exam schedule

60 %

Required Text: Michael Wickens, *Macroeconomic Theory*, Princeton, 2008.

Supplemental texts:

Blanchard and Fischer, *Lectures on Macroeconomics*, MIT Press, 1989

David Romer, *Advanced Macroeconomics*, New York: McGraw Hill, 1996.

Chiang, A. *Fundamental Methods of Mathematical Economics*, 3rd ed., New York: McGraw Hill.

McCafferty, S. *Macroeconomic Theory*, New York: Harper and Row, 1990.

Reading List

I. Introduction to Simple Equilibrium Models, Comparative Statics and Stability

Chiang, *Difference equations*: Ch. 16 (1-3)

Differential Equations: Chs. 13, 14 (1).

Comparative Statics and the Stability Condition: Ch. 7.

Using Instability: Equilibrium in Forward Looking models

Romer, Ch 5 (1), (3).

II. General Equilibrium and the IS-LM Model

Chiang, *Linear Models and Matrix Algebra*: Chs. 4, 5; McCafferty, Chapter 4

Taylor Series Approximations, Ch 9 (5)

Romer, Ch 5 (2)

McCafferty, Ch. 3 and 4.

III. The Classical Version of the AD/AS Model

Romer, Ch 4, 5 (2)

McCafferty, Ch. 5, sections 1-3.

IV. The Keynesian versions of the AD/AS Model

Romer, Ch 5 (4), (5), (6)

Midterm Test: February 11th

40%

V. **Inflation, Money Growth and Rational Expectations**

Romer, Ch 9

Blanchard and Fischer, Ch 5. (1), (2) and (3)

VI. Models of Imperfect Information and Imperfect Competition

The Lucas Model: Romer, Ch 6 (1), (2), (3), (4).

New Keynesian Economics; Romer, Ch 6 (10), (11), (12)

Blanchard and Fischer, Ch 8

Wickens, Ch. 9

VII. The Solow Growth Model:

Romer, Ch.1

Wickens, Ch.2

VIII. The Ramsey Model and Real Business Cycle Analysis:

Romer, Ch. 2 (first half)

Blanchard and Fischer, Ch. 2 (to page 58)

Wickens Ch.3, Ch 2.5.

IX. Endogenous Growth Models:

Romer, Ch.3 (1), (2), (3).

Blanchard and Fischer Ch. 4

Wickens, 3.5.

Final Examination: in the exam schedule

60 %

Additional Course coverage:

The emphasis in this course is on understanding how macroeconomic models work, how they are set up and solved. Because the structure of macroeconomics is inherently intertemporal and dynamic, considerable attention will be paid to the model's stability condition(s) and what they imply both for comparative statics and for processes of adjustment.

However while the classroom emphasis will be on the analytic theory used in macroeconomic problems, there is a growing interest in the application of macro models to policy and such applications use techniques that require specific skills that are complementary to, but different from, the techniques and skills being taught in class. That is, because of the increasing complexity of macro models, pure analytic solutions are not often possible. In such cases, linear approximations are used to build models that can be calibrated for simulation. Hence to give you some insight into how applied work in macro is being undertaken through the use of dynamic stochastic general equilibrium models (DSGEs), the teaching assistant in the course, Bill Xue, will be giving a series of six applied lectures. He will introduce you to the various linearization techniques used to form these simulation models. Then he will show you how to set up and use simple DSGE models through the use of MatLab and/or Dynare programs. You will not be examined on these lectures, but should find them a useful introduction to techniques that you will use should you decide to pursue a career (or write a thesis) in macroeconomics. Days and times for these lectures will be posted on our WebCT site.