

Binghamton University (SUNY-Binghamton)
Spring 2024 Economics 614 Macroeconomic Theory II

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Text: David Romer, Advanced Macroeconomics, 5th Edition, and readings listed below

Requirements:

One midterm examination.

Final exam (comprehensive).

Problem sets. You must hand in ALL problem sets on time or you will receive an F for the course. I will go over what you hand in & give you comments, but your course grade will not be affected by whether you get the answers right or wrong. You are encouraged to work together on problem sets.

Topics and readings:

Symbols describing where readings are available:

1 Available through JSTOR

2 Available in library or on my website.

3 Go to the library website, search as a journal.

1) Real business cycle (RBC) models

a) Review

You learned about RBC models in Econ 613. To prepare for our discussion of RBC models, review them by reading Romer chapter 5, sections 5.1 - 5.8.

b) Criticisms and extensions of the RBC model

Romer, section 5.10.

King and Rebelo, "Resuscitating Real Business Cycles," in Taylor and Woodford, eds., Handbook of Macroeconomics, Volume 1B, 1999.2

2) Old-fashioned Keynesian theory

If you did not learn a lot about the IS/LM model as an undergraduate, read this undergraduate presentation of the model: N. Gregory Mankiw, Macroeconomics (any edition).

a) The IS/LM model

Reading on IS/LM.2

Poole, William. "Optimal Choice of Monetary Instruments in a Simple Stochastic Macro Model." Quarterly Journal of Economics, May 1970, 84: 197-216.1

b) Aggregate supply

Friedman, Milton. "The Role of Monetary Policy." American Economic Review, March 1968, 58:1-17.1

Romer 6.4 up through p. 261

c) The IS/MP model

Reading on IS/MP.2

d) Rational expectations

Romer 6.9 up through p. 301

Romer section 12.8

4) Introduction to New Keynesian theory

Romer section 12.1

Romer Chapter 6, section 6.1

5) Models of price rigidity

a) Menu costs and real rigidities

Romer 6.5-6.7

Mankiw, "Small Menu Costs and Large Business Cycles: A Macroeconomic Model of Monopoly" including "Appendix: A General-Equilibrium Example." In Mankiw and Romer, eds. New Keynesian Economics, Volume 1, 1991. **2**.

b) Staggered (overlapping) wage and/or price setting

Romer 7.2 (Fischer model)

Romer 7.3 (Taylor model)

c) The New Keynesian Phillips curve

Romer 7.1, 7.4

John Roberts, "New Keynesian Economics and the Phillips Curve." Journal of Money, Credit and Banking, November 1995, 27: 975-984. **1**

Romer 7.6-7.7 up through top half of p. 345

d) State-dependent pricing

Romer 7.5

e) Sticky information

Romer 7.7 starting second half of p. 345 ("The Mankiw-Reis Model")

Mankiw and Reis, "Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve." Quarterly Journal of Economics, November 2002, 117: 1295-1328. **3**

6) Dynamic New Keynesian models

a) New Keynesian IS/LM

King, "The New IS-LM Model: Language, Logic, and Limits." Federal Reserve Bank of Richmond Economic Quarterly, Summer 2000, 86:45-103.

http://www.richmondfed.org/publications/research/economic_quarterly/2000/summer/king.cfm

Romer 7.8

b) Monetary policy in the New Keynesian IS/LM model

Clarida, Gali and Gertler. "The Science of Monetary Policy: A New Keynesian Perspective." Journal of Economic Literature, December 1999, pp. 1661-1707.**3**

c) Adding complications to the New Keynesian model

Romer 7.9-7.10.

Christiano, Eichenbaum and Evans, "Nominal Rigidities and the Dynamic Effects of a Shock to Monetary Policy." Journal of Political Economy, February 2005, 113:1-45.**3**

7) The state of New Keynesian theory as of 2008

Robert Solow, "The State of Macroeconomics" and reply by Chari and Kehoe. Journal of Economic Perspectives, Winter 2008, 22 (1), 243-249.**2**

Olivier J. Blanchard, "The State of Macro." NBER Working paper 14259, August 2008.**3**

8) Financial market imperfections

Romer 10.2

Bernanke, Gertler and Gilchrist, "The Financial Accelerator in a Quantitative Business Cycle framework." In Taylor and Woodford, eds., Handbook of Macroeconomics Volume 1c, 1999, pp. 1341-93.**2**

Romer 10.6

Douglas Diamond and Philip H. Dybvig. "Bank Runs, Deposit Insurance and Liquidity." Journal of Political Economy, June 1983, 91: 401-419.**1**

Romer 10.7

Andrei Schleifer and Robert Vishny, "Fire Sales in Finance and Macroeconomics." Journal of Economic Perspectives, Winter 2011, 29-48.**3**

Mark Gertler and Simon Gilchrist. "What Happened: Financial Factors in the Great Recession." Journal of Economic Perspectives, Summer 2018, 3-30.**3**

Michael Woodford. "Financial Intermediation and Macroeconomic Analysis." Journal of Economic Perspectives, Fall 2010, 21-44.**3**

9) Overview

Jordi Gali. "The State of New Keynesian Economics: A Partial Assessment." Journal of Economic Perspectives, Summer 2018, 32 (3), pp. 87-112.

Lawrence Christiano, Martin Eichenbaum and Mathias Trabandt. "On DSGE Models." Journal of Economic Perspectives, Summer 2018, 32 (3), pp.113-140.**3**