

Binghamton University (SUNY-Binghamton)  
Spring 2025 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](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**