

Economics 8107
Professor V.V. Chari
Spring 2013

Macroeconomic Theory: Part III

The purpose of this course is to strengthen your understanding of dynamic general equilibrium theory under uncertainty. We will also discuss monetary models, models with enforcement constraints, private information and models of policy.

Course Requirements:

We will have homework assignments every week (usually posted on Thursday and due next Thursday), a midterm exam and a final. The assignments will constitute 30%, the midterm 20%, and the final 40% of your grade.

Office Hours:

By appointment. My office is 4-191 Hanson Hall. Telephone numbers are 626-7151 (office), and (763) 559-8159 (home). My e-mail address is chari@econ.umn.edu

Teaching Assistant:

The TA is Zhifeng Cai. His e-mail address is caixx162@umn.edu. He will hold a recitation section each week.

Textbooks:

Required: *Recursive Macroeconomic Theory*: Lars Ljungqvist & Thomas Sargent, 3rd Edition, MIT Press.

Required: *Recursive Methods in Economic Dynamics*: Stokey, Lucas and Prescott, Harvard University Press.

Other Useful References:

Frontiers in Business Cycle Research, Princeton University Press, Princeton, NJ., Thomas Cooley and Edward Prescott, eds.

Handbook of Macroeconomics, North Holland. John Taylor & Michael Woodford, eds.

Lecture 1: Review of growth model: Chapter 3&4, SLP

Lecture 2: Stochastic growth model and variants. Chapter 10, SLP; Chapter 8, LS;

Lecture 3: Stochastic Dynamic Programming: Chapter 9, SLP; Chapter 3&4, LS

Lecture 4: Incomplete market models: Chapter 13.5-13.8, SLP; Chapter 18, LS

Lecture 5: Convergence of markov processes: Chapter 11, Chapter 12 SLP. Chapter 12, LS.

Lecture 6&7: Incomplete markets models: continued, Chapter 18, LS;

Aiyagari: uninsured idiosyncratic risk and aggregate saving;

Huggett: the risk-free rate in heterogeneous-agent incomplete insurance economies;

Angeletos-Calvet: Idiosyncratic production risk, growth and business cycles; Incomplete market dynamics in a neoclassical production economy.

Lecture 8,9,10: Monetary models, Chari-Kehoe Handbook Chapter; Woodford: optimal monetary stabilization policy; Woodford-Giannoni: optimal target criteria for stabilization policy;

Chapter 24-25, LS; Chari-Kehoe-McGrattan *Econometrica*

Lecture 11&12: Equilibriums in models with commitment/private information:

Chapter 20,21, LS;

Thomas-Worrall: Income fluctuations and asymmetric information: an example of a repeated principal-agent problem.

Atkeson-Lucas: on efficient distribution with private information

Kechevalakota: implications of efficient risk sharing without commitment

Kehoe-Levine: Debt-constrained Asset Markets;

Lecture 13&14: Policies. Chari-Kehoe: Sustainable plans; Sustainable plans and mutual defaults; Sustainable plan with debt;

Atkeson-Chari-Kehoe: Sophisticated Monetary Policies.