Macro Theory II: Part 1

Recommended Text Books:

- Gali, Jordi (G), 2017, Monetary Policy, Business Cycles and Inflation (Princeton University Press)
- Romer, David (R), 2012, Advanced Macroeconomics, Mcgraw-Hill

Topics:

1. The Real Business Cycle Model
   a. Foundations: Stochastic neoclassical growth model with variable labor
   b. Local dynamics and the economics behind cyclical fluctuations
   c. Quantitative performance: model versus data.
   d. Business cycle accounting: sources of deviations from the data
   LS ch. 12, 15
   R chs. 1,2,3, 5

2. The New Keynesian Model
   a. Households: consumption, saving and money demand
   b. Imperfectly competitive firms: factor demands and price setting
   c. Monetary policy: Taylor rules, etc.
   d. Properties of equilibrium: monetary non-neutrality, Phillips curves etc.
   e. Liquidity traps, debt-deleveraging, fiscal multipliers etc.
   G, chs., 2,3,4.
   R, chs. 6,7.
3. Optimal Monetary Policy
   a. Optimal policy under discretion
   b. The gains from commitment (Ramsey problem).
   c. Optimal policy in a liquidity trap.

   G, ch. 5
   Eggertsson, Gauti and Michael Woodford, 2003, "Optimal Monetary Policy in a Liquidity Trap, " *Brookings Papers on Economic Activity*

4. Adding Investment and Capital
   a. Tobin’s Q theory of investment: partial equilibrium
   b. The New Keynesian DSGE model.

   R, ch. 9


5. Financial Market Frictions
   a. Townsend’s costly state verification model
   b. Costly enforcement: static and dynamic
   c. Financial accelerator/credit cycle models
   d. Unconventional monetary policy.

   R, section 9.9.
   Gertler, Mark and Nobuhiro Kiyotaki, 2011, "Financial Intermediation and Credit Policy in Business Cycle Analysis," *Handbook of Monetary Economics*