

Bilkent University  
Department of Economics

**ECON 505**  
**Macroeconomic Theory I**  
Fall, 2002

**Instructor:** Erdem Başçı  
**Phone:** 1469  
**Class Hrs:** Tue 8:40, 9:40, Thu 8:40, 9:40      **Class Room:** B109  
**Office Hrs.:** Tue 10:40, Wed 8:40, 9:40      **Office:** MA227

### Course Objective

This course is an overview of contemporary macroeconomic theory. Issues of employment and output determination, consumption, growth and government finance will be discussed using models with and without microeconomic foundations. Models of overlapping generations and infinitely lived agents will be studied by means of examples from the literature. Consumption and investment under uncertainty, asset prices and money will be covered in the continuation of this course, ECON 506, Macroeconomic Theory II.

### Class Format

In addition to the material covered in class, each student is required to solve the homework assignments every week from each topic. One randomly selected student among volunteers will present his/her findings in class the following week. The mere act of volunteering will count towards your total homework score, which has a weight of 10% in your overall grade. There will be two midterms and one final examination. The first midterm will be on October 31, 2002, Thursday and the second one on November 28, 2002, Thursday.

### Grading

The student presentations will constitute 10% of the grade. Each one of the midterms and the final will have an equal weight of 30%.

### Textbooks

**Main:**

Romer, D., *Advanced Macroeconomics*, McGraw-Hill, 1996.

Williamson, S., *Notes on Macroeconomic Theory*, University of Iowa, August 1999.

## **Reference:**

Blanchard O.J. and S. Fischer, *Lectures on Macroeconomics*, MIT Press, 1989.

Obstfeld, M. and K. Rogoff, *Foundations of International Macroeconomics*, MIT Press, 1996.

Sargent, T.J., *Macroeconomic Theory*, Second Edition, Academic Press, 1987.

Stokey, N.L. and R.E. Lucas, *Recursive Methods in Economic Dynamics*, Harvard University Press, 1989.

## Course Outline and Readings

### **1. Introduction**

- Some stylized facts about macroeconomic variables. (Stock and Watson, 1999)
- Research questions and modelling approaches. (Mankiw, 1990)
- Directly postulated models versus microfoundations. (Mankiw, 1990)

### **2. Directly postulated models**

#### 2.1. A Keynesian model

- The Keynesian closed economy model (Romer, 5.1, 5.2, 5.4, Sargent, 2.1)
- Comparative statics (Sargent, 2.1)

#### 2.2. A classical model

- The classical closed economy model (Sargent, 1.6)
- Comparative statics (Sargent, 1.6)

#### 2.3. An open economy model

- Mundell-Fleming model of an open economy (Romer, 5.3)
- Rational expectations and exchange rate overshooting (Romer, 5.3)

#### 2.4. Dynamics

- Phillips curve (Romer, 5.5, 5.6, Sargent, 5.1)

#### 2.5. Growth

- Solow-Swan neoclassical growth model (Romer, 1, Obstfeld-Rogoff, 7.1)

### 3. Microfoundations

#### 3.1. Methodology

- Lucas critique (Lucas, 1976)
- Its consequences (Mankiw, 1990)

#### 3.2. Phillips curve

- Lucas confusion model of the Phillips curve (Romer, 6.1, 6.2, 6.3, 6.4)

#### 3.3. Equilibrium output, consumption and employment

- A simple representative agent model (Williamson, 1.1, Obstfeld-Rogoff, 1)
- Government consumption and comparative statics (Williamson, 1.2)
- Long lived agents, discrete time (Williamson, 1.3, Obstfeld-Rogoff, 2)
- Long lived agents, continuous time (Romer, 2.1, 2.2)

#### 3.4. Government spending and finance

- Tax versus bond financing: Ricardian equivalence (Williamson, 1.3, Romer, 2.8, 2.9, Obstfeld-Rogoff, 3.1)

#### 3.5. Optimal growth

- Long lived agents and Euler equations (Romer, 2.3, 2.4, 2.5, 2.6, 2.7, Obstfeld-Rogoff, 7.2)
- Long lived agents and dynamic programming (Williamson, 3)
- Diamond's overlapping generations model (Williamson, 2, Romer, 2B, Obstfeld-Rogoff, 3.2, 7.2)

#### 3.6. Sustained growth

- Endogeneous growth theory (Romer, 3, Williamson, 4)

### Papers on Methodology

Lucas, R.E., 1976. Econometric policy evaluation: A critique, *Journal of Monetary Economics*, 62, pp. 19-46.

Mankiw, N.G., 1990. A quick refresher course in macroeconomics, *Journal of Economic Literature*, 28, pp. 1645- 1660.

Stock, J.H. and M.W. Watson, 1999. Business cycle fluctuations in US macroeconomic time series, in J.B. Taylor and M. Woodford eds. *Handbook of Macroeconomics*, Elsevier.