

Econ 8453 Advanced Macroeconomic Theory I

Fall 2007

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Office hours: Monday, 3:30 pm – 5:30 pm

The purpose of this course is to further develop one's understanding of the modern theories in macroeconomics. We will learn dynamic models that are developed to study aggregate economic behavior. Meanwhile, I will familiarize you with the tools (workhorses) that are commonly used in modern macroeconomics.

Reference books:

Dynamic Macroeconomic Theory (DMT) by Thomas Sargent, 1987, Harvard University Press

Recursive Macroeconomic Theory, 2nd Edition (RMT) by Lars Ljungqvist and Thomas Sargent, the MIT Press.

Course Requirements:

There will be two midterms (25% each) and a final exam (50%). Problem sets will be assigned periodically. Although problem sets are not part of your grade, you are urged to complete each of them as they are essential to preparing for the class exams and for the qualifying exam.

Course Outline:

1. A simple static model of general equilibrium.
Prof. Haslag's notes.
2. Intertemporal optimization.
Prof. Haslag's notes.
3. Overlapping generation models.
DMT Ch. 7, RMT Ch.9
Samuelson, P. 1958. "An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money," *Journal of Political Economy* 66(6), 467-482.
Shell, K. 1971. "Notes on the Economics of Infinity," *Journal of Political Economy* 79(5), 1002-1011.
Diamond, P. 1965. "National Debt in a Neoclassical Growth Model," *American Economic Review* 55, 1126-1150.
4. Dynamic programming—deterministic economy
DMT Ch. 1

5. Decision making under uncertainty.
6. Dynamic programming—stochastic economy
DMT Ch. 1
7. Asset pricing
DMT Ch. 3, RMT Ch. 13
Lucas, R. 1978. “Asset Prices in an Exchange Economy”, *Econometrica* 46, 1426-1445.
Mehra, R. and Prescott E. 1985. “The Equity Premium: A Puzzle”, *Journal of Monetary Economics* 15, 145-162.
8. Search
DMT Ch. 2, RMT Ch. 6
McCall, J. 1970. “Economics of Information and Job Search,” *Quarterly Journal of Economics* 84, 113-126.