

Macroeconomics II – Part 2

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Macroeconomics II - Part II

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Course information

Recursive methods constitute a powerful approach to dynamic economics due to their described focus on a tradeoff between the current period's utility and a continuation value for utility in all future periods.

This part of the course will continue to revolve around additional main ideas: the competitive equilibrium model of a dynamic stochastic economy, complete markets and incomplete markets. This model is a foundation for asset pricing theory, growth theory, real business cycle theory, and normative public finance. In order to introduce fiat money in this model the model has to be modified. The shopping time model is then used to explain ten doctrines of monetary economics.

Course outline

- Ricardian equivalence -- [Ch. 9 in LS1, Ch.10 in LS2]
- Fiscal Policies in Growth Model - [Ch. 11 in LS2]
- Recursive Competitive Equilibria - [Ch.12 in LS2]
- Asset Pricing - [Ch. 10 in LS1 and Ch.13 in LS2]
- Fiscal-Monetary Theories of Inflation - [Ch.17 in LS1, Ch. 24 in LS2]
- Self-Insurance – [Ch. 16 in LS2]
- Incomplete Markets Models – [Ch. 17 in LS2]
- Some heterogenous agents models – articles and texts will be provided later

Requirements and grading

There will be two exams in the course, a two hour midterm exam in the first half of the course and a two hour final exam in the second half of the course. There will also be weekly problem sets. Problem sets and class participation will count for 15% of the course grade, and the midterm exam will count for 35 % of the course grade. The total for the second half is 50% of the course grade.

Readings

We will use the books below together with journal articles which will be specified in a more detailed syllabus.

(LS1) Ljungquist, Lars and Thomas J. Sargent: Recursive Macroeconomic Theory. First Edition. MIT Press. 2000

(LS2) Ljungquist, Lars and Thomas J. Sargent: Recursive Macroeconomic Theory. Second Edition. MIT Press. 2004