

**UNIVERSITY OF CALIFORNIA, RIVERSIDE**  
**DEPARTMENT OF ECONOMICS**

**ECON 201A: MACROECONOMIC THEORY I**  
**Fall 2019**

“Progress in economic thinking means getting better and better abstract, analogue economic models, not better verbal observations about the world.”

*in “Methods and Problems in Business Cycle Theory”*  
by Robert E. Lucas Jr., JMCB (1980)

**Instructor:** Jang-Ting Guo

**Lectures:** MW 9:00 – 10:45 a.m., Sproul Hall 2206

**Office:** Sproul Hall 3133

**Phone no.:** (951) 827-1588

**E-Mail:** GUOJT@UCR.EDU

**Office Hours:** Open Door

**Description:** This course will study macroeconomic theory and its relationship to general equilibrium analysis. We start by looking at some stylized facts of the U.S. time series data and discuss two basic growth theories. We then investigate how economic agents formulate expectations. Finally, we will examine the first of the two types of models that are used extensively in modern macroeconomics, which is based on the idea that economic agents are thought of as families who live forever.

**Texts:** Azariadis, Costas, *Intertemporal Macroeconomics*, Blackwell Publisher, Cambridge, Massachusetts, 1993.

Farmer, Roger E.A., *The Macroeconomics of Self-Fulfilling Prophecies*, 2nd edition, MIT Press, Cambridge, Massachusetts, 1999.

Farmer, Roger E.A., *Macroeconomics*, 2nd edition, South-Western College Publishing, Cincinnati, Ohio, 2002.

The second textbook is available at the UCR bookstore. Other five references are placed on the Rivera Library’s reserve:

Arrow, Kenneth J., and Michael D. Intriligator, editors, *Handbook of Mathematical Economics*, Vol. 2., North Holland, Amsterdam, 1982.

Begg, David K.H., *The Rational Expectations Revolution in Macroeconomics: Theories & Evidence*, Phillip Allen, Oxford, 1982.

Burmeister, Edwin, *Capital Theory and Dynamics*, Cambridge University Press, Cambridge, 1980.

Cooley, Thomas F., editor, *Frontiers of Business Cycle Research*, Princeton University, Princeton, New Jersey, 1995.

Hirshleifer, Jack, *Investment, Interest, and Capital*, Englewood Cliffs, NJ: Prentice-Hill, 1970.

**Discussion Section:** There is a weekly discussion section held by Xiaolu Zhu on Fridays. She will discuss the problem sets, conduct quizzes and answer questions in the sessions. It is imperative for you to attend all TA sessions.

<b>Grading:</b>	Computer and Homework Assignments	10%
	Quizzes	10%
	Midterm Exam	30%
	Final Exam	50%

- Several computer assignments and part of the weekly problem sets will be graded. They would give you an idea about the types of questions that will appear on the midterm, final and cumulative exams.
- There will be a 30-minute quiz at the end of the first five TA sessions. The dates and coverage of each quiz are as follows:

Quiz #1: Friday, October 4; Farmer, *Macroeconomics*, Chapters 1--3.

Quiz #2: Friday, October 11; Farmer, *Macroeconomics*, Chapters 4--6.

Quiz #3: Friday, October 18; Farmer, *Macroeconomics*, Chapters 7--9.

Quiz #4: Friday, October 25; Farmer, *Macroeconomics*, Chapters 10--12.

Quiz #5: Friday, November 1; Farmer, *Macroeconomics*, Chapters 13, 17 and 18.

- If you miss the midterm exam *for any reason*, then the final exam will count for 80% of your grade.
- The midterm exam is tentatively scheduled on **Saturday, November 9, 2019**. The exact time and place will be announced later.
- The final exam is scheduled on **Monday, December 9, 2019**. The exact time and place will be announced later.
- There will be no alternate or make-up final exam.

### **Course Outline:**

A star (\*) next to the reference item indicates that it is available from ECON 201A Course Content in iLearn.

#### 0. Two Background Readings.

Laband, David N., and Michael J. Piette, "The Relative Impacts of Economic Journals: 1970-1990,\*" *Journal of Economic Literature*, 32(1994), 640-666.

Stigler, George, Stephen M. Stigler, and Claire Friedland, "The Journals of Economics,\*" *Journal of Political Economy*, 103(1995), 331-359.

#### 1. Introduction and Measurement. Macroeconomic Facts. (2 lectures)

Cooley (1995), Chapter 1.

Farmer, *Macroeconomics*, Chapters 1--3 and October 1995 manuscript\*.

Fiorito, Riccardo, and Tryphon Kollintzas, "Stylized Facts of Business Cycles in the G7 from a Real Business Cycles Perspective,\*" *European Economic Review*, 38(1994), 235-269.

Kydland, Finn E., and Edward C. Prescott, "Business Cycles: Real Facts and A Monetary Myth,\*" *Federal Reserve Bank of Minneapolis Quarterly Review*, Spring 1990, 3-18.

2. Intertemporal Optimization. Macroeconomic Dynamics. (2 lectures)

Burmeister (1980), Chapter 2.

Farmer, *Macroeconomics*, Chapter 14 and October 1995 manuscript\*.

Hirshleifer (1970), Chapter 2.

Barro, Robert J., and Robert G. King, "Time-Separable Preferences and Intertemporal-Substitution Models of Business Cycles,\*" *Quarterly Journal of Economics*, 99(1984), 817-839.

3. Introduction to Neoclassical and Endogenous Growth Theories. (3 lectures)

Azariadis, *Intertemporal Macroeconomics*, Chapter 7.1--7.2.

Farmer, *Macroeconomics*, Chapters 15--16 and October 1995 manuscript\*.

Solow, Robert, "A Contribution to the Theory of Economic Growth,\*" *Quarterly Journal of Economics*, 70(1956), 65-94.

4. A Digression on Theories of Expectations. (1 lecture)

Attfield, Clifford L.F., David Demery, and Nigel W. Duck, *Rational Expectations in Macroeconomics: An Introduction to Theory and Evidence*, 2nd edition, Basil Blackwell Ltd., Oxford, (1991), Chapters 1--2\*.

Begg (1982), Chapters 1--3.

Sheffrin, Steven M., *Rational Expectations*, Cambridge University Press, Cambridge, (1983), Chapter 1\*.

5. Linear Difference Equations. Determinacy of Equilibrium. The Lucas Critique. (5 lectures)

Azariadis, *Intertemporal Macroeconomics*, Chapters 1--4, 6, 7.3, and Technical Appendices A.1--A.2.

Farmer, *The Macroeconomics of Self-Fulfilling Prophecies*, Chapters 1--3.

Blanchard, Olivier J., and Charles M. Kahn, "The Solution of Linear Difference Models under Rational Expectations,\*" *Econometrica*, 48(1980), 1305-1311.

Farmer, Roger E.A., "The Lucas Critique, Policy Invariance and Multiple Equilibria,\*" *Review of Economic Studies*, 58(1991), 321-332.

King, Robert G., Charles I. Plosser, and Sergio T. Rebelo, "Production, Growth and Business Cycles I. The Basic Neoclassical Model,\*" *Journal of Monetary Economics*, 21(1988), 195-232.

Lucas, Robert E. Jr., "Econometric Policy Evaluation: A Critique,\*" *Carnegie Rochester Conference Series on Public Policy*, 1(1976), 19-46.

6. General Equilibrium Theory. The Debreu-Sonnenschein-Mantel Theorem. The Welfare Theorems. (3 lectures)

Farmer, *The Macroeconomics of Self-Fulfilling Prophecies*, Chapter 4.

Arrow, Kenneth J., and Gerard Debreu, "Existence of an Equilibrium for a Competitive Economy,\*" *Econometrica*, 22(1954), 265-290.

Debreu, Gerard, "Valuation Equilibrium and Pareto Optimum,\*" in *Mathematical Economics: Twenty Papers of Gerard Debreu*, Cambridge University Press, Cambridge, (1983), 98-104.

Negishi, Takashi, "Welfare Economics and Existence of an Equilibrium for a Competitive Economy," *Metroeconomica*, 12(1960), 92-97.  
Shafer, Wayne, and Hugo Sonnenschein, "Market Demand and Excess Demand Functions," in Arrow and Intriligator (1982), 671-692.

7. Impulses and Propagation Mechanism. Real Business Cycle Model. (3 lectures)

Azariadis, *Intertemporal Macroeconomics*, Chapter 13.4.  
Farmer, *The Macroeconomics of Self-Fulfilling Prophecies*, Chapter 5.  
Farmer, *Macroeconomics*, November 1996 manuscript, Chapter 19\*.  
Brock, William A., and Leonard Mirman, "Optimal Economic Growth and Uncertainty: the Discounted Case," *Journal of Economic Theory*, 4(1972), 479-513.  
Hansen, Gary D., "Indivisible Labor and the Business Cycle," *Journal of Monetary Economics*, 16(1985), 309-325.  
Hansen, Gary D., and Randall Wright, "The Labor Market in Real Business Cycle Theory," *Federal Reserve Bank of Minneapolis Quarterly Review*, Spring 1992, 2-12.  
Kehoe, Timothy J., and David K. Levine, "Comparative Statics and Perfect Foresight in Infinite Horizon Economies," *Econometrica*, 53(1985), 433-454.  
Kydland, Finn E., and Edward C. Prescott, "Time to Build and Aggregate Fluctuations," *Econometrica*, 50(1982), 1345-1370.  
Leijonhufvud, Axel, "What Happened to Keynesian Economics?\*" in *The Legacy of Keynes*, edited by David A. Reese, Harper & Row, New York, 1987, 57-73.  
\_\_\_\_\_, "What Would Keynes Have Thought of Rational Expectations?\*" in *Keynes and the Modern World*, edited by David Worswick and James Trevithick, Cambridge University Press, Cambridge, 1986, 179-205.  
Mankiw, N. Gregory, "Real Business Cycles: A New Keynesian Perspective,\*" *Journal of Economic Perspectives*, 3(1989), 79-90.  
Plosser, Charles I., "Understanding Real Business Cycles,\*" *Journal of Economic Perspectives*, 3(1989), 51-77.

**Final Notes**

- The course outline may be revised during the quarter.
- You are fully responsible for following up on all the announcements made in the lectures.