

UNIVERSITY OF CALIFORNIA, RIVERSIDE
DEPARTMENT OF ECONOMICS

ECON 282E: ADVANCED MACROECONOMIC THEORY I
FALL 2019

Instructor: Jang-Ting Guo
Lectures: MW 1:00 – 2:20 p.m., Sproul Hall 4128
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| Grading: | Class and Theory Seminar Participation | 10% |
| | Computer Assignments | 20% |
| | Class Presentation | 30% |
| | Term Paper | 40% |

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| Deadline for a one-page proposal (excluding references) | November 1 |
| Date for presentation | December 7 |
| Deadline for the term paper | noon on December 9 |

Course Outline

A star (*) next to the reference item indicates that it is available from the Electronic Reserve.

0. Two Background Readings

Hamermesh, Daniel S., “The Young Economist’s Guide to Professional Etiquette,*” *Journal of Economic Perspective*, 6(1992), 169-179.
Thomson, Willam, “Guidelines on Writing Referee Reports,*” Rochester Center for Economic Research Working Paper #451, 1998.

I. Basic Real Business Cycle Models

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.
King, Robert G. and Sergio T. Rebelo, “Resuscitating Real Business Cycles,” in *Handbook of Macroeconomics* edited by John Taylor and Michael Woodford, North Holland, 1999, 927-1007.
Kydland, Finn E. and Edward C. Prescott, “Time to Build and Aggregate Fluctuations,” *Econometrica*, 50(1982), 1345-1370.
Long, John B. and Charles I. Plosser, “Real Business Cycles,” *Journal of Political Economy*, 91(1983), 39-69.

II. The Economics of Indeterminacy in Real Business Cycle Models

Benhabib, Jess and Roger E.A. Farmer, "Indeterminacy and Sunspots in Macroeconomics," in *Handbook of Macroeconomics* edited by John Taylor and Michael Woodford, North Holland, 1999, 387-448.

Cooper, Russell W., and Andrew John, "Coordinating Coordination Failures in Keynesian Models," *Quarterly Journal of Economics*, 103(1988), 441-463.

1. One-Sector Real Models

Benhabib, Jess and Roger E.A. Farmer, "Indeterminacy and Increasing Returns,*" *Journal of Economic Theory*, 63(1994), 19-41.

Farmer, Roger E.A. and Jang-Ting Guo, "Real Business Cycles and the Animal Spirits Hypothesis,*" *Journal of Economic Theory*, 63(1994), 42-72.

_____, "The Econometrics of Indeterminacy: An Applied Study," *Carnegie-Rochester Conference Series on Public Policy*, 43(1995), 225-271.

Guo, Jang-Ting and Kevin J. Lansing, "Maintenance Expenditures and Indeterminacy under Increasing Returns to Scale,*" *International Journal of Economic Theory*, 3(2007), 147-158.

_____, "Capital-Labor Substitution and Equilibrium Indeterminacy,*" *Journal of Economic Dynamics and Control*, 33(2009), 1991-2000.

Schmitt-Grohe, Stephanie, "Comparing Four Models of Aggregate Fluctuations due to Self-Fulfilling Expectations," *Journal of Economic Theory*, 72(1997), 96-147.

Wen, Yi, "Capital Utilization under Increasing Returns to Scale,*" *Journal of Economic Theory*, 81(1998), 7-36.

2. Two-Sector Real Models

Benhabib, Jess and Roger E.A. Farmer, "Indeterminacy and Sector-Specific Externalities,*" *Journal of Monetary Economics*, 37(1996), 421-444.

Guo, Jang-Ting and Sharon G. Harrison, "Indeterminacy with Capital Utilization and Sector-Specific Externalities,*" *Economics Letters*, 72(2001), 355-360.

_____, "Indeterminacy with No-Income-Effect Preferences and Sector-Specific Externalities,*" *Journal of Economic Theory*, 145(2010), 287-300.

Harrison, Sharon G., "Indeterminacy in a Model with Sector-Specific Externalities," *Journal of Economic Dynamics and Control*, 25(2001), 747-764.

Perli, Roberto, "Indeterminacy, Home Production, and the Business Cycle: A Calibrated Analysis," *Journal of Monetary Economics*, 41(1998), 105-125.

Schmitt-Grohe, Stephanie, "Endogenous Business Cycles and the Dynamics of Output, Hours, and Consumption," *American Economic Review*, 90(2000), 1136-1159.

Weder, Mark, "Animal Spirits, Technology Shocks and the Business Cycle," *Journal of Economic Dynamics and Control*, 24(2000), 273-295.

3. Demand-Driven Business Cycles

Benhabib, Jess and Yi Wen, "Indeterminacy, Aggregate Demand, and the Real Business Cycle," *Journal of Monetary Economics*, 51(2004), 503-530.

Devereux, Michael B., Allen C. Head and Beverly J. Lapham, "Monopolistic Competition, Increasing Returns, and the Effects of Government Spending," *Journal of Money, Credit, and Banking*, 28(1996), 233-254.

Guo, Jang-Ting, "Increasing Returns, Capital Utilization, and the Effects of Government Spending,*" *Journal of Economic Dynamics and Control*, 28(2004), 1059-1078.
Rotemberg, Julio and Michael Woodford, "Oligopolistic Pricing and the Effects of Aggregate Demand on Economic Activity," *Journal of Political Economy*, 100(1992), 1153-1207.

4. Expectations-Driven Business Cycles

Beaudry, Paul and Franck Portier, "An Exploration into Pigou's Theory of Cycles,*" *Journal of Monetary Economics*, 51(2004), 1183-1216.
_____, "When can Changes in Expectations cause Business Cycle Fluctuations in Neo-Classical Settings?*" *Journal of Economic Theory*, 135(2007), 458-477.
Guo, Jang-Ting, Anca-Ioana Sirbu and Richard M.H. Suen, "On Expectations-Driven Business Cycles in Economies with Production Externalities: A Comment,*" *International Journal of Economic Theory*, 8(2012), 313-319.
Guo, Jang-Ting, Anca-Ioana Sirbu and Mark Weder, "News about Aggregate Demand and the Business Cycle,*" *Journal of Monetary Economics*, 72(2015), 83-96.
Jaimovich, Nir and Serigo Rebelo, "Can News about the Future Drive the Business Cycle? *American Economic Review*, 99(2009), 1097-1118.
Wang, Pengfei, "Understanding Expectation-Driven Fluctuations -- A Labor-Market Approach," *Journal of Money, Credit, and Banking*, 44(2011), 487-506.

5. Stabilization Policy

Chang, Juin-Jen, Jang-Ting Guo, Jhy-Yuan Shieh and Wei-Neng Wang, "Sectoral Composition of Government Spending and Macroeconomic (In)stability,*" *Economic Inquiry*, 53(2015), 23-33.
_____, "Sectoral Composition of Government Spending, Distortionary Income Taxation and Macroeconomic (In)stability,*" *International Journal of Economic Theory*, 15(2019), 95-107.
Chen, Shu-Hua and Jang-Ting Guo, "Progressive Taxation and Macroeconomic (In)stability with Productive Government Spending,*" *Journal of Economic Dynamics and Control*, 37(2013), 951-963.
_____, "Progressive Taxation and Macroeconomic (In)stability with Utility-Generating Government Spending,*" *Journal of Macroeconomics*, 42(2014), 174-183.
Guo, Jang-Ting and Sharon G. Harrison, "Tax Policy and Stability in a Model with Sector-Specific Externalities,*" *Review of Economic Dynamics*, 4(2001), 75-89.
_____, "Balanced-Budget Rules and Macroeconomic (In)stability,*" *Journal of Economic Theory*, 119(2004), 357-363.
_____, "Useful Government Spending and Macroeconomic (In)stability under Balanced-Budget Rules,*" *Journal of Public Economic Theory*, 10(2008), 383-397.
Guo, Jang-Ting and Kevin J. Lansing, "Indeterminacy and Stabilization Policy,*" *Journal of Economic Theory*, 82(1998), 481-490.
_____, "Fiscal Policy, Increasing Returns, and Endogenous Fluctuations,*" *Macroeconomic Dynamics*, 5(2002), 633-664.
_____, "Globally-Stabilizing Fiscal Policy Rules," *Studies in Nonlinear Dynamics & Econometrics*, 7(2003), 1-13.
Schmitt-Grohe, Stephanie and Martin Uribe, "Balanced Budget Rules, Distortionary Taxes and Aggregate Instability," *Journal of Political Economy*, 105(1997), 976-1000.

6. International Business Cycles

- Backus, David, K., Patrick J. Kehoe and Finn E. Kydland, "International Real Business Cycles," *Journal of Political Economy*, 100(1992), 745-775.
- Guo, Jang-Ting and Federico Sturzenegger, "Crazy Explanations of International Business Cycles,*" *International Economic Review*, 39(1998), 111-133.
- Stockman, Alan and Linda Tesar, "Tastes and Technology in a Two Country Model of the Business Cycle: Explaining International Comovements," *American Economic Review*, 85(1995), 168-185.
- Xiao, Wei, "Can Indeterminacy Resolve the Cross-Country Correlation Puzzle?" *Journal of Economic Dynamics and Control*, 28(2004), 2341-2366.

7. Economic Growth

- Benhabib, Jess and Roberto Perli, "Uniqueness and Indeterminacy: On the Dynamics of Endogenous Growth," *Journal of Economic Theory*, 63(1994), 113-142.
- _____ and Jordi Gali, "On Growth and Indeterminacy: Some Theory and Evidence,*" *Carnegie-Rochester Conference Series on Public Policy*, 43(1995), 163-211.
- Cazzavillan, Guido, "Public Spending, Endogenous Growth, and Endogenous Fluctuations," *Journal of Economic Theory*, 71(1996), 394-415.
- Chen, Shu-Hua and Jang-Ting Guo, "On Indeterminacy and Growth under Progressive Taxation and Productive Government Spending,*" *Canadian Journal of Economics*, 46(2013), 865-880.
- _____, "Progressive Taxation, Endogenous Growth, and Macroeconomic (In)stability,*" *Bulletin of Economic Research*, 68(2016), 20-27.
- _____, "Progressive Taxation as an Automatic Destabilizer under Endogenous Growth,*" *Journal of Economics*, 127(2019), 47-71.
- Palivos, Theodore, Ching-Kee Yip and Junxi Zhang, "Transitional Dynamics and Indeterminacy of Equilibria in an Endogenous Growth Model with A Public Input,*" *Review of Development Economics*, 7(2003), 86-98.

8. Monetary Economics

- Benhabib, Jess and Roger E.A. Farmer, "The Monetary Transmission Mechanism,*" *Review of Economic Dynamics*, 3(2000), 523-550.
- _____, Stephanie Schmitt-Grohe and Martin Uribe, "Monetary Policy and Multiple Equilibria," *American Economic Review*, 91(2001), 167-186.
- _____, "The Perils of Taylor Rules," *Journal of Economic Theory*, 96(2001), 40-69.
- Chen Hung-Ju and Jang-Ting Guo, "Social Status and the Growth Effect of Money,*" *Japanese Economic Review*, 60(2009), 133-141.
- _____, "Money, Social Status and Endogenous Growth in a Generalized Cash-in-Advance Model,*" *Pacific Economic Review*, 16(2011), 267-284.
- Chen, Shu-Hua and Jang-Ting Guo, "Velocity of Money, Equilibrium (In)determinacy and Endogenous Growth,*" *Journal of Macroeconomics*, 39(2008), 1085-1096.
- Feenstra, Robert C., "Functional Equivalence Between Liquidity Costs and the Utility of Money,*" *Journal of Monetary Economics*, 17(1986), 271-291.
- Lubik, Thomas A. and Frank Schorfheide, "Testing for Indeterminacy: An Application to US Monetary Policy," *American Economic Review*, 94(2004), 190-217.

- Suen, Ming-Hon and Chong-Kee Yip, "Superneutrality, Indeterminacy and Endogenous Growth,*" *Journal of Macroeconomics*, 27(2005), 579-595.
- Wang, Ping and Chong-Kee Yip, "Alternative Approaches to Money and Growth,*" *Journal of Money, Credit, and Banking*, 24(1992), 553-562.

9. Currency Crisis

- Burnside, Craig, Martin Eichenbaum and Sergio Rebelo, "Prospective Deficits and the Asian Currency Crisis," *Journal of Political Economy*, 109(2001), 1155-1197.
- Calvo, Guillermo A. and Enrique G. Mendoza, "Mexico's Balance-of-Payment Crisis: A Chronicle of A Death Foretold," *Journal of International Economics*, 41(1996), 235-264.
- Cole, Harold L. and Timothy J. Kehoe, "A Self-Fulfilling Model of Mexico's 1994-1995 Debt Crisis," *Journal of International Economics*, 41(1996), 309-330.
- Sachs, Jeffrey, Aaron Tornell and Andres Velasco, "The Mexican Peso Crisis: Sudden Death or Death Foretold,*" *Journal of International Economics*, 41(1996), 265-283.

III. Fiscal Policy and Macroeconomy

1. The Neoclassical Approach to Fiscal Policy

- Aschauer, David A., "The Equilibrium Approach to Fiscal Policy," *Journal of Money, Credit and Banking*, 20(1988), 41-62.
- Barro, Robert J., "The Neoclassical Approach to Fiscal Policy," in *Modern Business Cycle Theory* edited by Robert J. Barro, Harvard University Press, Cambridge, Massachusetts, 1989, 178-235.
- Baxter, Marianne and Robert G. King, "Fiscal Policy in General Equilibrium,*" *American Economic Review*, 83(1993), 315-334.

2. Optimal Capital Taxation

- Chamley, Christopher P., "Optimal Taxation of Income in General Equilibrium with Infinite Lives," *Econometrica*, 54(1986), 607-622.
- Guo, Jang-Ting and Kevin J. Lansing, "Optimal Taxation of Capital Income with Imperfectly Competitive Product Markets,*" *Journal of Economic Dynamics and Control*, 23(1999), 967-995
- Judd, Kenneth L., "Redistributive Taxation in A Simple Perfect Foresight Model," *Journal of Public Economics*, 28(1985), 59-83.