

Syllabus

Advanced Topics in Macroeconomics

November 29, 2011

Professor Christopher D. Carroll

<http://econ.jhu.edu/people/ccarroll/>

For office hours and to make an appointment:

Password `hopkins` for Google calendar:

<http://econ.jhu.edu/people/ccarroll/calendar.html>

This course will mainly be an overview of current topics in the macro and microeconomics of consumption, with a few extra topics thrown in.

You should own a copy of the texts by Deaton (1992), and Romer (2011). The black book by Sargent (1987) is also a useful reference for some of the time series econometric issues.

This syllabus is a work in progress, and will be updated throughout the semester as I reach each topic.

I will be posting handouts and other material specific to each topic on my web page, where you should be able to download it if you are on campus. Go to my web page, scroll to the bottom of the page and click on the link for the course, then click on the link that appears. This will take you to a directory structure that corresponds to the topics in the class. You can download the latest version of the syllabus from there.

1 The Time Series Dynamics of Consumption

Handouts

lcnsVSlyFromFedWealth
TimeSeriesCEQ
CRRA-RateRisk
CampManCRRARWithTimeVaryingR
CointegrationAndCAY
RamseyCointegration

Required Readings (click to download .bib file)

CAMPBELL, JOHN Y., AND N. GREGORY MANKIW (1989): "Consumption, Income, and Interest Rates: Reinterpreting the Time-Series Evidence," in *NBER Macroeconomics Annual, 1989*, ed. by Olivier J. Blanchard, and Stanley Fischer, pp. 185–216. MIT Press, Cambridge, MA, <http://ideas.repec.org/p/nbr/nberwo/2924.html>.

- CAMPBELL, JOHN, AND ANGUS DEATON (1989): “Why is Consumption So Smooth?” *The Review of Economic Studies*, 56(3), 357–373, <http://www.jstor.org/stable/2297552>.
- CARROLL, CHRISTOPHER D. (1992): “The Buffer-Stock Theory of Saving: Some Macroeconomic Evidence,” *Brookings Papers on Economic Activity*, 1992(2), 61–156, <http://econ.jhu.edu/people/ccarroll/BufferStockBPEA.pdf>.
- (2011): “Theoretical Foundations of Buffer Stock Saving,” *Manuscript, Department of Economics, Johns Hopkins University*, <http://econ.jhu.edu/people/ccarroll/papers/BufferStockTheory>.
- (2009): “Precautionary Saving and the Marginal Propensity to Consume Out of Permanent Income,” *Journal of Monetary Economics*, 56(6), 780–790, <http://econ.jhu.edu/people/ccarroll/papers/MPCPerm>.
- LETTAU, MARTIN, AND SYDNEY LUDVIGSON (2004): “Understanding Trend and Cycle in Asset Values: Reevaluating the Wealth Effect on Consumption,” *American Economic Review*, 94(1), 276–299, <http://www.jstor.org/stable/3592779>.
- (2001): “Consumption, Aggregate Wealth, and Expected Stock Returns,” *Journal of Finance*, 56(3), 815–849, <http://www.jstor.org/stable/222534>.
- BRENNAN, MICHAEL J., AND Y. XIA (2005): “Tay’s as Good as Cay,” *Finance Research Letters*, 2, 1–14, <http://dx.doi.org/10.1016/j.frl.2004.10.001>.
- CARROLL, CHRISTOPHER D., JIRI SLACALEK, AND KIICHI TOKUOKA (2011): “Sticky Expectations and Consumption Dynamics,” *Manuscript, Johns Hopkins University*, <http://llorracc.net/Hidden/Papers/cAndCwithStickyE>.

Optional Readings (click to download .bib file)

- FLAVIN, MARJORIE B. (1981): “The Adjustment of Consumption to Changing Expectations About Future Income,” *Journal of Political Economy*, 89, 974–1009, <http://ideas.repec.org/a/ucp/jpolec/v89y1981i5p974-1009.html>.
- CAMPBELL, JOHN Y. (1987): “Does Saving Anticipate Declining Labor Income? An Alternative Test of the Permanent Income Hypothesis,” *Econometrica*, 55, 1249–73, <http://www.jstor.org/stable/1913556>.
- LUDVIGSON, SYDNEY, AND ALEXANDER MICHAELIDES (2001): “Does Buffer Stock Saving Explain the Smoothness and Excess Sensitivity of Consumption?,” *American Economic Review*, 91(3), 631–647.
- SUMMERS, LAWRENCE H. (1981): “Capital Taxation and Accumulation in a Life Cycle Growth Model,” *American Economic Review*, 71(4), 533–544, <http://ideas.repec.org/a/aea/aecrev/v71y1981i4p533-44.html>.

2 Solution Methods for Dynamic Stochastic Optimization Problems

Handouts

SolvingMicroDSOPs
SolvingMacroDSOPs.pdf

Required Readings (click to download .bib file)

CARROLL, CHRISTOPHER D. (2006): “The Method of Endogenous Gridpoints for Solving Dynamic Stochastic Optimization Problems,” *Economics Letters*, pp. 312–320, <http://econ.jhu.edu/people/ccarroll/EndogenousGridpoints.pdf>.

——— (2000): “Requiem for the Representative Consumer? Aggregate Implications of Microeconomic Consumption Behavior,” *American Economic Review, Papers and Proceedings*, 90(2), 110–115, <http://econ.jhu.edu/people/ccarroll/RequiemFull.pdf>.

3 Habits

Handouts

AERHabitsHandout
HabitsEconLett606
HabitsAndMPCPerm

Required Readings (click to download .bib file)

EASTERLIN, RICHARD (1974): “Does Economic Growth Improve the Human Lot? Some Empirical Evidence,” in *Nations and Households in Economic Growth. Essays in Honour of Moses Abramowitz*. Academic Press, New York and London, <http://graphics8.nytimes.com/images/2008/04/16/business/Easterlin1974.pdf>.

CARROLL, CHRISTOPHER D., JODY R. OVERLAND, AND DAVID N. WEIL (2000): “Saving and Growth with Habit Formation,” *American Economic Review*, 90(3), 341–355, <http://econ.jhu.edu/people/ccarroll/AERHabits.pdf>.

DYNAN, KAREN E. (2000): “Habit Formation in Consumer Preferences: Evidence from Panel Data,” *American Economic Review*, 90(3), <http://www.jstor.org/stable/117335>.

FUHRER, JEFFREY C. (2000): “Habit Formation in Consumption and its Implications for Monetary Policy Models,” *American Economic Review*, 90(3), 367–390, <http://www.jstor.org/stable/117334>.

Recommended Readings (click to download .bib file)

ABEL, ANDREW B. (1990): “Asset Prices under Habit Formation and Catching Up with the Joneses,” *American Economic Review*, 80(2), 38–42.

BLANCHFLOWER, DAVID, AND ANDREW J. OSWALD (2004): “Well Being Over Time in Britain and the USA,” *Journal of Public Economics*, 88, 1359–1386.

CONSTANTINIDES, GEORGE M. (1990): “Habit Formation: A Resolution of the Equity Premium Puzzle,” *Journal of Political Economy*, 98, 519–43.

MUELLBAUER, JOHN N. (1988): “Habits, Rationality, and Myopia in the Life Cycle Consumption Function,” *Annales d'économie et de Statistique*, 9, 47–70.

CARROLL, CHRISTOPHER D. (2000): “‘Risky Habits’ and the Marginal Propensity to Consume Out of Permanent Income,” *International Economic Journal*, 14(4), 1–41, <http://econ.jhu.edu/people/ccarroll/riskyhabits.pdf>.

4 Saving And Growth

Handouts

- GrowthAndGrossSaving
- OLGModel
- Class handouts

Required Readings

LEVINE, ROSS E., AND DAVID RENELT (1992): “A Sensitivity Analysis of Cross-Country Growth Regressions,” *American Economic Review*, 82, 942–963.

CARROLL, CHRISTOPHER D., AND DAVID N. WEIL (1994): “Saving and Growth: A Reinterpretation,” *Carnegie-Rochester Conference Series on Public Policy*, 40, 133–192, <http://econ.jhu.edu/people/ccarroll/CarrollWeilSavingAndGrowth.pdf>.

GOURINCHAS, PIERRE-OLIVIER, AND OLIVIER JEANNE (2007): “Capital Flows to Developing Countries: The Allocation Puzzle,” *NBER Working Paper w13602*.

SONG, ZHENG MICHAEL, AND DENNIS TAO YANG (2010): “Life Cycle Earnings and Saving in a Fast-Growing Economy,” *Manuscript, Chinese University of Hong Kong*.

CHAMON, MARCUS D., AND ESWAR S. PRASAD (2010): “Why Are Saving Rates of Urban Households in China Rising?,” *American Economic Journal: Macroeconomics*, 2(1), 93–130, Available at <http://www.aeaweb.org/articles.php?doi=10.1257/mac.2.1.93>.

Optional Readings

BARRO, ROBERT J. (1991): “Economic Growth in a Cross Section of Countries,” *Quarterly Journal of Economics*, 106, 407–443.

WESTLING, TATU (2011): “Male Organ And Economic Growth: Does Size Matter?,” MPRA Paper 32302, University Library of Munich, Germany.

DEATON, ANGUS, AND GUY LAROQUE (2001): “Housing, Land Prices, and the Link Between Saving and Growth,” *Journal of Economic Growth*, 6(2), 87–105.

DEATON, ANGUS, AND CHRISTINA PAXSON (2000): “Growth and Saving Among Individuals and Households,” *Review of Economics and Statistics*, 82(2), 212–25.

LOAYZA, NORMAN, KLAUS SCHMIDT-HEBBEL, AND LUIS SERVÉN (2000): “What Drives Saving Across the World?,” *Review of Economics and Statistics*, 82(1).

5 Where Does Aggregate Capital Come From?

Handouts

RamseyCassKoopmansRefresh
LifeCycleMaxProb
PFLCPIHSims

Required Readings

CARROLL, CHRISTOPHER D. (1997): “Buffer Stock Saving and the Life Cycle/Permanent Income Hypothesis,” *Quarterly Journal of Economics*, CXII(1), 1–56, <http://econ.jhu.edu/people/ccarroll/BSLCPIH.zip>.

KOTLIKOFF, LAURENCE J., AND LAWRENCE H. SUMMERS (1981): “The Role of Intergenerational Transfers in Aggregate Capital Accumulation,” *Journal of Public Economics*, 89(4), 706–32.

PEMBERTON, JAMES (1997): “The Empirical Failure of the Life Cycle Model with Perfect Capital Markets,” *Oxford Economic Papers*, 49(1), 129–151, Available at <http://ideas.repec.org/a/oup/oxecpp/v49y1997i2p129-51.html>.

CARROLL, CHRISTOPHER D. (2000): “Why Do the Rich Save So Much?,” in *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, ed. by Joel B. Slemrod. Harvard University Press, <http://econ.jhu.edu/people/ccarroll/Why.pdf>.

——— (2002): “Portfolios of the Rich,” in *Household Portfolios: Theory and Evidence*. MIT Press, Cambridge, MA, <http://econ.jhu.edu/people/ccarroll/richportfolios.pdf>.

Optional Readings

HUBBARD, R. GLENN, JONATHAN S. SKINNER, AND STEPHEN P. ZELDES (1994): “The Importance of Precautionary Motives for Explaining Individual and Aggregate Saving,” in *The Carnegie-Rochester Conference Series on Public Policy*, ed. by Allan H. Meltzer, and Charles I. Plosser, vol. 40, pp. 59–126.

GENTRY, WILLIAM M., AND R. GLENN HUBBARD (1998): “Why Do the Wealthy Save So Much? Saving and Investment Decisions of Entrepreneurs,” *Manuscript, Columbia University*.

QUADRINI, VINCENZO (2000): “Entrepreneurship, Saving, and Social Mobility,” *Review of Economic Dynamics*, 3(1), 1–40.

PINKER, STEPHEN (1997): *How the Mind Works*. W.W. Norton And Company.

KENNICKELL, ARTHUR B. (2000): “An Examination of Changes in the Distribution of Wealth From 1989 to 1998: Evidence from the Survey of Consumer Finances,” *Manuscript Prepared for Conference on Saving, Intergenerational Transfers, and the Distribution of Wealth, Bard College, June 7-9, 2000*.

6 Agent Based Modeling

Required Readings

CARROLL, CHRISTOPHER D. (forthcoming): “The Epidemiology of Macroeconomic Expectations,” in *The Economy as an Evolving Complex System, III*, ed. by Larry Blume, and Steven Durlauf. Oxford University Press, <http://www.econ.jhu.edu/people/ccarroll/epidemiologySFI.pdf>.

——— (2003): “Macroeconomic Expectations of Households and Professional Forecasters,” *Quarterly Journal of Economics*, 118(1), 269–298.

Optional Readings

ARTHUR, W. BRIAN, JOHN H. HOLLAND, BLAKE LEBARON, RICHARD PALMER, AND PAUL TAYLER (1997): “Asset Pricing Under Endogenous Expectations in an Artificial Stock Market,” in *The Economy as an Evolving Complex System II*, ed. by W. Brian Arthur, Steven N. Durlauf, and David Lane. Addison Wesley Longman.

LEBARON, BLAKE (forthcoming): “Agent Based Computational Finance: Suggested Readings and Early Research,” *Journal of Economic Dynamics and Control*.

SARGENT, THOMAS J. (1993): *Bounded Rationality in Macroeconomics*. Oxford University Press, Oxford.

7 The Equity Premium Puzzle

Handouts

StockValuation
EquityPremiumPuzzle

Required Readings

BENZONI, LUCA, PIERRE COLLIN-DUFRESNE, AND ROBERT S. GOLDSTEIN (2007): “Portfolio Choice over the Life-Cycle when the Stock and Labor Markets are Cointegrated,” *Journal of Finance*, 62(5), 2123–2167, <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6261.2007.01271.x/full>.

KOCHERLAKOTA, NARAYANA (1996): “The Equity Premium: It’s Still a Puzzle,” *Journal of Economic Literature*, XXXIV(1).

JERMANN, URBAN J. (1998): “Asset Pricing in Production Economies,” *Journal of Monetary Economics*, 42(2), 257–75.

CAMPBELL, JOHN Y., AND JOHN H. COCHRANE (1999): “By Force of Habit: A Consumption-Based Explanation of Aggregate Stock Market Behavior,” *Journal of Political Economy*, 107(2), 205–251.

HALIASSOS, MICHAEL, AND ALEXANDER MICHAELIDES (2003): “Portfolio Choice and Liquidity Constraints,” *International Economic Review*, 44(1), 143–177, available at <http://ideas.repec.org/a/ier/iecrev/v44y2003i1p143-177.html>.

PARKER, JONATHAN A. (2003): “Consumption Risk and Expected Stock Returns,” *American Economic Review Papers and Proceedings*, 93(2), Available at <http://ideas.repec.org/p/nbr/nberwo/9548.html>.

Course Text References

DEATON, ANGUS S. (1992): *Understanding Consumption*. Oxford University Press, New York.

ROMER, DAVID (2011): *Advanced Macroeconomics*. McGraw-Hill/Irwin, fourth edn.

SARGENT, THOMAS (1987): *Macroeconomic Theory, Second Edition*. Academic Press.

8 Behavioral Economics

Required Readings (click to download .bib file)

AKERLOF, GEORGE A. (2002): “Behavioral Macroeconomics and Macroeconomic Behavior,” *American Economic Review*, 92(3), 411–433, <http://www.aeaweb.org/articles.php?doi=10.1257/00028280260136192>.

CAMERER, COLIN (2010): “The Case for Mindful Economics,” in *The Foundations of Positive and Normative Economics: A Handbook*, The Handbooks in Economic Methodologies. Oxford University Press, USA, <http://www2.e.u-tokyo.ac.jp/cemano/research/DRSS/documents/microCOE0806.pdf>.

Optional Readings (click to download .bib file)

KAHNEMAN, D. (2011): *Thinking, Fast and Slow*. Farrar, Straus and Giroux, <http://books.google.com/books?id=SHvzzuCnuv8C>.

GENESOVE, DAVID, AND CHRISTOPHER MAYER (2001): “Loss Aversion and Seller Behavior: Evidence from the Housing Market,” *The Quarterly Journal of Economics*, 116(4), 1233.