BGSE Macroeconomics I

Prof. Keith Kuester

Winter term, 2024/25

Outline:
This is the first course in the PhD core macro sequence at U Bonn. It serves as an introduction. Students learn basic techniques and concepts, and the work-horse models of representative-agent macroeconomics. Macroeconomics studies the outcomes of interactions in large populations. How does society allocate its resources? How does the interaction of private incentives and public policies shape economic outcomes? Should policy try to smooth economic fluctuations? Because populations are large and policy interventions are made on a large scale, general-equilibrium effects are important. Models serve as laboratories. The course covers basic frameworks for studying growth, business cycles with and without frictions, and monetary and fiscal stabilization policies. Towards the end, the course also provides a first look at the distributional effects of stabilization policies.

Lecture times: Th/Fr. 08:30 sharp - 10:00, Room 0.017 (Selten Raum).

Office hours: Mo 15.00-16.00; Kaiserplatz 7-9, Room 4.015. Please always register beforehand, sending me an email by Friday cob.

There will be a recap/Q+A session (a "tutorium") roughly every other week. The first tutorium is scheduled for October 25, 14:00 in HS H.

Grading: Successful students will have to pass a two-hour written final exam. This exam will be open book. The grade for the entire course will be based on the final exam's grade. Students are also strongly advised to work on the problem sets that will be distributed as the course progresses. Students can submit their solution to each problem set (the tutor will provide a deadline). In this case, the solution will be marked. The average mark on all problem sets combined will be used to improve the final grade. The maximum possible improvement is 0.7 grade points; for example, from a grade of 2.0 in the final exam to a grade for the entire course of 1.3.

Overview

Ch. 0 Outlook and introduction.

Ch. 1 Asset prices in macro.
Textbook: Ljungqvist and Sargent (2018), ch. 13, ch. 14.1-14.5, ch. 14.9].
Review paper: Cochrane (2017).

Ch. 2 Growth.
Main reference: Jones (2016).
Textbook: Ljungqvist and Sargent (2018), ch. 15.1-15.5.
Review papers: Herrendorf et al. (2014), Hornstein et al. (2005), Grossman and Oberfield (2022), Jones (2022).

Ch. 3 Real business cycle theory.
Main reference: King and Rebelo (1999).
Business cycle accounting: Brinca et al. (2016); Cost of business cycles: Lucas (2003), further references on the slides;

Ch. 4 Equilibrium unemployment over the business cycle.
Text book: Ljungqvist and Sargent (2018), ch. 29.1-29.5.
Review papers: Rogerson et al. (2005), Rogerson and Shimer (2011).
Further references on the slides.

Ch. 5 Classical monetary model.
Textbook: Walsh (2017), ch. 2 and 3; or Galí (2015), ch. 2.
Further references on the slides.

Ch. 6 Monetary fiscal interaction.
Textbook :Walsh (2017), ch. 4.2 and 4.5, Ljungqvist and Sargent (2018), ch. 27.
Review papers: Leeper and Leith (2016), Sims (2013).
Application: Bianchi et al. (2023). Further references on the slides.

Ch. 7 Nominal Rigidities – New Keynesian Model – positive and normative.
Walsh (2017):

- ch. 7.2.2 price-setting and Phillips curve.
- ch. 7.2.3 monopolistic competition.
- ch. 8 (all sections): New Keynesian model and policy implications.
- ch. 11.1-11.4: effective lower bound and forward guidance.

Galí (2015):

- ch. 3: basic New Keynesian model, shock transmission, determinacy.
- ch. 4: optimal monetary policy.

- ch. 5: sticky wages and sticky prices.

Further references on the slides.

Ch. 8 Monetary policy, heterogeneity.
Main reference: Bilbiie (2024) and Angeletos et al. (2024).
Further references on the slides.

Ch. 9 Monetary policy and behavioral.
Main reference: Gabaix (2020).

How you might wish to use the references:

The course provides an introduction to select areas of graduate macro. What is relevant for the exam is the material we cover in lectures and problem sets. The material provided on e-campus and in class is intended to be self-contained for this course. However, it may not be sufficient for every student, and some students may wish to read more about a topic. The references above are meant to serve as alternative sources of information and intuition, and as starting points for reading up on a topic; as do the additional references provided on the slides. The references do not necessarily use the exact same notation or modeling that is used in the classroom (in fact, in most cases, they do not). Nor do the references necessarily cover the exact same ground (most often the references end up covering more material than the lectures).

As per the books, Ljungqvist and Sargent (2018), Walsh (2017), and Galí (2015) are all available in the university library. Walsh's book, in addition, can be accessed online from the ULB when connected through the university's network.

References

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Bilbiie, F. O. (2024), 'Monetary Policy and Heterogeneity: An Analytical Framework,' *The Review of Economic Studies*, p. rdae066.

Brinca, P., Chari, V., Kehoe, P., and McGrattan, E. (2016), 'Chapter 13 - Accounting for Business Cycles,' *Handbook of Macroeconomics*, volume 2, Elsevier, pp. 1013–1063.

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Grossman, G. M. and Oberfield, E. (2022), 'The Elusive Explanation for the Declining Labor Share,' *Annual Review of Economics*, 14(Volume 14, 2022), pp. 93–124.

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Rogerson, R., Shimer, R., and Wright, R. (2005), 'Search-Theoretic Models of the Labor Market: A Survey,' *Journal of Economic Literature*, 43(4), p. 959?988.

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Walsh, C. E. (2017), *Monetary Theory and Policy, Fourth Edition*, The MIT Press.