

**Economics G6222**  
**Advanced Macroeconomic Analysis II**  
**Economic Fluctuations**  
**Second Half**

**Course Description:** This is the second half of a one-semester course in Advanced Macroeconomics. This half covers primarily two topics. The first topic is the identification, estimation, and propagation of news shocks. Anticipation of aggregate disturbances represents a way to incorporate aggregate demand shocks even in environments in which all movements in fundamentals originate in the supply side of the economy. Students will be familiarized with a recent and fast growing literature arguing that much of the observed movements in aggregate activity stem from anticipated changes in fundamentals. The second topic studied in this course is the empirical identification and theoretical explanation of the macroeconomic effects of government spending shocks. The reason for studying government spending shocks is not that this type of disturbance represents a major source of aggregate fluctuations in developed economies. Instead, the reason is that government spending shocks are unique in that they provide a vehicle for telling alternative models of the macroeconomy apart. In particular, we will see that models in the neoclassical and Keynesian traditions predict very different responses to an innovation in public spending, but similar responses to other shocks that are believed to explain a sizable fraction of movements in aggregate variables, such as neutral or investment-specific technology shocks.

**Topic I: News Shocks**

- Issues to be Discussed:

Identification and Estimation of News Shocks Using VAR models

Identification and Estimation of News Shocks Using DSGE models and Bayesian Methods

Assessing the Contribution of News Shocks to Business Cycles

The Pure Anticipation Effect

- Material to be Used in Class:

Schmitt-Grohé, Stephanie and Martín Uribe. “What’s News in Business Cycles?.” manuscript, Columbia University, June, 2008.

Beaudry, Paul, and Franck Portier. “Stock Prices, News, and Economic Fluctuations.” *American Economic Review* 96 (September 2006): 1293-1307.

Jaimovich, Nir, and Sergio Rebelo. “Can News About the Future Drive the Business Cycle?.” manuscript, April 2008.

Comin, Diego; Mark Gertler and Ana-Maria Santacreu. “Innovations in Growth Potential as Sources of Output and Asset Price Fluctuations.” manuscript, September 2008.

**Topic II: Empirical Estimation and Theoretical Explanations of the Aggregate Effects of Government Spending Shocks**

- Issues to be Discussed:

Identification and Estimation of Government Shocks Using Structural VAR models

Identification and Estimation of Government Spending Shocks Using War Dummies.

Models with Sticky Prices

Models with Implicit Collusion Among Oligopolists

Models with Special Preference Specifications

Models with Rule-of-Thumb Consumers

Models with Deep Habits.

- Material to be Used in Class:

Ravn, Morten O., Stephanie Schmitt-Grohé, and Martín Uribe. “Explaining the Effects of Government Spending Shocks on Consumption and the Real Exchange Rate.” manuscript, Duke University, 2007. (Empirical sections.)

Perotti, Roberto. “In search of the transmission mechanism for fiscal policy.” manuscript, IGIER, Università Bocconi, March 2007. forthcoming *NBER Macroeconomics Annual 2007*.

Ramey, Valerie. “Identifying Government Spending Shocks: It’s All in the Timing.” mimeo, University of California, San Diego, July 2006.

Monacelli, Tommaso and Roberto Perotti. “Fiscal Policy, the Trade Balance, and the Real Exchange Rate: Implications for International Risk Sharing.” manuscript, IGIER, Università Bocconi, June 2006.

Rotemberg, Julio J. and Michael Woodford. “Oligopolistic Pricing and the Effects of Aggregate Demand on Economic Activity.” *The Journal of Political Economy* 100 (December 1992): 1153-1207.

Galí, Jordi, David López-Salido, and Javier Vallés. “Understanding the Effects of Government Spending on Consumption.” *Journal of the European Economic Association* 5 (March 2007): 227-270.

Linnemann, Ludger. “The Effect of Government Spending on Private Consumption: A Puzzle? .” *Journal of Money, Credit, and Banking* 38 (October 2006): 1715-1736.

Ravn, Morten O., Stephanie Schmitt-Grohé, and Martín Uribe. “Deep Habits.” *Review of Economic Studies* 73 (January 2006): 195-218.

Ravn, Morten O., Stephanie Schmitt-Grohé, and Martín Uribe. “Pricing to Habits and the Law of One Price.” *American Economic Review, Papers and Proceedings* 97 (May 2007): 232-238.

Ravn, Morten O., Stephanie Schmitt-Grohé, and Martín Uribe. “Explaining the Effects of Government Spending Shocks on Consumption and the Real Exchange Rate.” manuscript, Duke University, June 2007. (Theoretical sections.)

Ravn, Morten O., Stephanie Schmitt-Grohé, and Martín Uribe. “Incomplete Cost Pass-Through Under Deep Habits.” manuscript, Duke University, February 2007.