

**Economics G6216:
Macroeconomic Analysis II
Part I: January 22 - March 12, 2014**

This course serves as part three of the first-year Ph.D. sequence in macroeconomics. It introduces students to the core tools and themes of business-cycle theory and macroeconomic stabilization policy.

Lectures: Mondays and Wednesdays 2:40pm-3:55pm in 405 IAB.

Office Hours: Mondays, 4:15pm-5:15pm in IAB 1109B.

Teaching Assistant: Mariana García Schmidt, mcg2155@columbia.edu.

TA Session: Fridays 8:40am-9:55am in 501B IAB.

TA Office Hours: Fridays 10:10am-11:40am, Lehman Library.

Requirements: The grade will be based on homework assignments (20%) and a midterm examination (80%).

Midterm Exam: Wednesday, March 12, in class.

Texts: The textbook for the course is Open Economy Macroeconomics by Martín Uribe and Stephanie Schmitt-Grohé. It is available online at <http://www.columbia.edu/~mu2166/>.

Outline of the Material to be Covered in Class

1. Open Economy Business-Cycle Theory

Required Reading:

- Chapters 1-4 of Open Economy Macroeconomics.

Topics

- Basic business-cycle facts
- Dynamic stochastic equilibrium business cycle models
- First-order approximations to dynamic stochastic general equilibrium models

- The sources of business-cycle fluctuations
- Evaluating business-cycle models

Background Readings

- 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 (March-May 1988): 195-232.
- Mendoza, Enrique. “Real Business cycles in a small-open economy.” *American Economic Review* 81 (1991): 797-818.
- Schmitt-Grohé, Stephanie and Martín Uribe. “Closing Small Open Economy Models.” *Journal of International Economics* 61 (October 2003): 163-185.
- García-Cicco, Javier, Roberto Pancrazi, and Martín Uribe. “Real Business Cycles in Emerging Countries?.” *American Economic Review* 100 (December 2010): 2510-2531.
- Chang, R. and Andrés Fernández. “On the Sources of Aggregate Fluctuations in Emerging Countries.” *International Economic Review* 54 (November 2013): 1265-1293.

2. Monetary Policy in the Open Economy

Required Reading:

- Chapter 8 of Open Economy Macroeconomics.
- Galí, Jordi, and Tommaso Monacelli. “Monetary Policy and Exchange Rate Volatility in a Small Open Economy.” *The Review of Economic Studies* 72 (July 2005): 707-734.

Topics:

- Models of Monetary Nonneutrality due to Nominal Rigidities
- Optimal Monetary/Exchange Rate Policy
- Currency Pegs

Background Readings

- Schmitt-Grohé, Stephanie, and Martín Uribe. “Downward Nominal Wage Rigidity, Currency Pegs, and Involuntary Unemployment.” Columbia University, 2013.

3. Fiscal Policy Analysis

Topics

- The size of the government spending and tax multiplier
- Explaining the observed effects of fiscal shocks
- The Ramsey approach to optimal taxation

Readings

Perotti, Roberto. “In Search of the Transmission Mechanism of Fiscal Policy.” NBER Macroeconomics Annual 2007, 169-226.

Romer, Christina D., and David H. Romer. “The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks.” *American Economic Review* 100 (June 2010): 763-801.

Woodford, Michael. “Simple Analytics of the Government Expenditure Multiplier.” *American Economic Journal: Macroeconomics* 3 (January 2011): 1-35.

Chari, V. V., Christiano, Lawrence; and Kehoe, Patrick J. “Policy Analysis in Business Cycle Models.” In *Frontiers of Business Cycle Research*, edited by Thomas F. Cooley. Princeton, New Jersey: Princeton, University Press, 1995, 357-91.

Ravn, Morten, Stephanie Schmitt-Grohé, Martín Uribe. “Consumption, Government Spending, and the Real Exchange Rate.” *Journal of Monetary Economics* 59 (April 2012): 215-234.