Macroeconomic Theory Fall 2009

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I. Objectives

This course covers two general topics: the political economy of growth and aggregate fluctuations and the specification and estimation of present value models. It emphasized that students of macroeconomic theory should always have the empirical regularities and institutional factors in their minds when conducting theoretical investigations, that is, the main fours of this course is that the empirical implications of any useful theoretical model must be consistent with the observed stylized facts and underlying institutions.

Regarding the first topic, we study why countries experience different performance in economic growth and aggregate fluctuations in globalization era which has been characterized as follows: firms are allowed to freely choose their locations of production, and capital and technology can be moved across border with almost no barriers. To account different performance across countries, this course emphasizes the importance of institutional factors, such as democratic institutions, the quality of government and social norms. To this end, this course will focus on the recent development of the political economy of economic growth and aggregate fluctuations. The specific topics include income distribution and economic growth in political equilibrium framework, the influence of democracy on economic growth, the impacts of globalization on growth and aggregate fluctuations, and the impact of outsourcing on domestic labor market.

Present value models have been widely used in the conventional analysis in macroeconomic theory and financial economics. We first investigate the long-run properties of present value models and then study econometric strategy for estimating present value models. In particular, I use the intertemporal budget constraint of government as an example to address the issue of fiscal sustainability. We show that the procedural rules and limits on deficits financing in budgetary institutions provide a crucial and additional econometric restriction on the intertemporal budget constraint. Hence, without properly considering the budgetary institutions, the intertemporal budget constraint implies a stochastic singularity among fiscal variables and therefore cannot be tested.

II. Topics

* indicates the required reading

1. Economic Growth and Income Disparity among Counties

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III. Grading