

UNIVERSITY OF HAWAII AT MANOA

DEPARTMENT OF ECONOMICS

Economics 609*
Macroeconomic Theory II

Fall 2003
Lecture: TR 6:00pm – 8:00pm
Room: BUSAD C102

Instructor: Lee H. Endress
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Course Descriptions: This course is an introduction to macroeconomic theory and analysis. A major theme of the course will be macroeconomic dynamics with emphasis on the neoclassical foundations of investment, capital theory, economic growth, and monetary theory. We begin with review of basic macroeconomic models and their dynamics, including IS-LM and AS-AD. The course will then introduce the technology of optimal control through the study of capital theory and investment. Optimal control and other dynamic methods will be applied to various models of economic growth. Next we consider models of overlapping generations and their use in policy analysis of issues such as national debt and social security. Three sessions will be devoted to the study of real business cycle theory (taught by Dr. Xiaojun Wang). Finally, using neoclassical models, we will study the role of money in the economy.

Required Texts:

Heijdra and Van der Ploeg, *Foundations of Modern Macroeconomics*, Oxford, 2002
Romer, *Advanced Macroeconomics (2nd Ed.)*, McGraw-Hill, 2001

Recommended Text:

Weitzman, *Income, Wealth and the Maximum Principle*, Harvard, 2003

Other References:

Aghion and Howitt, *Endogenous Growth Theory*, MIT, 1998
Barro and Sala-I-Martin, *Economic Growth*, MIT, 1999
Blanchard and Fischer, *Lectures On Macroeconomics*, MIT, 1989

Grading:

Final Exam:	40%
Midterm Exam:	30%
Homework:	20%
Participation:	10%

* Note: With the exception of three sessions on real business cycle theory, taught by Dr. Xiaojun Wang, ECON 609 will be taught jointly with ECON 607 by Dr. Lee H. Endress. Each class, however, will be graded separately. Student performance will only be assessed within each class rather than across the two classes. Each class will receive separate exams.

SYLLABUS

Topic 1: Review of Basic Macro Models (4 sessions: Aug 26, 28; Sept 2, 4)

Heijdra /Van der Ploeg, chapters 1 and 2
Romer, chapter 5

Topic 2: Economic Dynamics and Optimal Control (4 sessions: Sept 9, 11, 16, 18)

Heijdra/Van der Ploeg, chapters 2 and 4
Weitzman, chapters 1 and 2
Dorfman (1969)
Ramsey (1928)

Topic 3: Models of Economic Growth (6 sessions: Sept 23, 25, 30; Oct 2, 7, 9)

Heijdra/Van der Ploeg, chapter 14
Romer, chapters 1, 2A, and 3
Mankiw (1992, 1995)
Lucas (1988)
Romer (1986)

Midterm: Oct 14 (Tuesday), 6:00pm – 7:30pm

Topic 4: Models of Overlapping Generations (4 sessions: Oct 16, 21, 23, 28)

Heijdra/Van der Ploeg, chapters 16 and 17
Romer, chapter 2B
Blanchard (1985)
Diamond (1965)

Midterm Review: Oct 30 (Thursday), 6:00pm – 7:30pm

Topic 5: Real Business Cycle Theory (3 Thursday sessions: Nov 6, 13, 20)*

Heijdra/Van der Ploeg, chapter 15
Romer, chapter 4
Campbell (1994)

Topic 6: Money (4 sessions: Dec 2, 4, 9, 11)

Heijdra/Van der Ploeg, chapter 12
Brock (1975)
Sidrauski (1967)

Final: Dec 16 (Tuesday), 6:00pm – 8:00pm

* Note: Topic 5 is for ECON 609 students only and will be covered by Dr. Xiaojun Wang over the three Thursday sessions indicated. There will be no class for ECON 609 on Tuesdays Nov 4, 18, and 25.

PAPERS

Neoclassical Foundations

Ramsey, Frank (1928), "A Mathematical Theory of Saving," *Economic Journal*

Dorfman, Robert (1969), "An Economic Interpretation of Optimal Control Theory," *American Economic Review*

Weitzman, Martin (1976), "On the Welfare Significance of National Product in a Dynamic Economy," *Quarterly Journal of Economics*

Growth Theory

Lucas, Robert (1988), "On the Mechanics of Economic Development," *Journal of Monetary Economics*

Mankiw, N Gregory et al (1992), "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*

Romer, Paul (1986), "Increasing Returns and Long-Run Growth," *Journal of Political Economy*

Overlapping Generations Models

Diamond, Peter (1965), "National Debt in a Neoclassical Growth Model," *American Economic Review*

Blanchard, Oliver (1985), "Debt, Deficits, and Finite Horizons," *Journal of Political Economy*

Real Business Cycle Theory

Campbell, John (1994), "Inspecting the Mechanism: An Analytical Approach to the Stochastic Growth Model," *Journal of Monetary Economics*

Money and Inflation

Brock, William (1975), "A simple Perfect Foresight Monetary Model," *Journal of Monetary Economics*

Sidrauski, Miguel (1967), "Rational Choice and Patterns of Growth in a Monetary Economy," *American Economic Review*