Prof. George Karras
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Office Hours:
Thu 2:00-3:00
or by appointment


Other Recommended Texts:

Benassy, Jean-Pascal, Macroeconomic Theory, Oxford, 2011. (Intermediate to advanced level, comprehensive coverage)


Olivier Jean Blanchard and Stanley Fischer, Lectures on Macroeconomics, MIT, 1989. (Advanced level, comprehensive coverage)

John B. Taylor and Michael Woodford (eds.), Handbook of Macroeconomics (3 volumes), North-Holland, 1999. (Intermediate to advanced level, very thorough survey of macroeconomic topics)

Carl E. Walsh, Monetary Theory and Policy, 3rd ed., MIT, 2010. (Intermediate to advanced level, emphasis on monetary theory and stabilization)


Woodford, Michael, Interest and Prices, Princeton, 2003. (Advanced level, emphasis on monetary theory and policy)

Overview:
This is the second course of the graduate sequence in Macroeconomics. The purpose of this course is to provide a broad survey of the topics in Macroeconomic Theory. I will assume that you have mastered the models in Econ 511 and that you are familiar with the basic concepts of calculus, probability, and statistics.

Part I addresses the long-run issue of economic growth. Part II covers the modeling of the main components of GDP: private consumption, investment, government spending (and taxes), and net exports. Part III introduces money mainly from the long-run perspective. Part IV discusses theories of the business cycle, including all major schools of thought, and unemployment. Finally, Part V covers issues on the feasibility and desirability of stabilization policy.

Evaluation: Your grade will be based on a midterm (50%) and a final (50%) examination. In addition, there will be several practice problem sets.
Course Outline:

PART I. CAPITAL ACCUMULATION AND ECONOMIC GROWTH
1. Neoclassical Growth Models: Stylized Facts, the Solow Model, the Ramsey Model, a Malthusian model, Convergence.

PART II. NEOCLASSICAL MODELING
4. Consumption: the Permanent Income Hypothesis, the Random Walk result, Liquidity Constraints, Precautionary Saving, Durables and Nondurables, Habit Formation.
5. Investment: the Jorgenson model, the Accelerator, Tobin's q, Taxes and Subsidies, the effects of Uncertainty.
7. The Current Account: A simple model, a model with production, the Large Open Economy, an Infinite Horizon model.

PART III. MONEY, GROWTH, AND INFLATION
8. Demand for Money: Store of Value, Transactions Demand, Precautionary Demand.

PART IV. BUSINESS CYCLES
11. The Standard Keynesian Model: Aggregate Demand, a Keynesian Aggregate Supply, the Friedman-Phelps Supply Function.
12. Rational Expectations: the Muth Model, the Sargent-Wallace Model, the Lucas Supply Function, Implications.
15. Unemployment: Indivisible Labor, the Efficiency Wage Model, Persistence of Unemployment, Insiders-Outsiders.

PART V. STABILIZATION POLICY UNDER UNCERTAINTY
17. The Importance of Expectations: Adaptive vs Rational Expectations, the New Keynesian Model, Implications for Policy.
19. Other Useful Models: Taylor Rules, Wage Indexation, Monetary Unification and Dollarization, a unified model of business cycles, the Barro model of Fiscal policy.