This course is the second in a three quarter sequence of macroeconomic theory for students in the Ph.D. program. The objective of this course is to provide empirical assessments of various macroeconomic theories, and also to contrast the recent work in New Keynesian theory with the literature in the New Classical vein, by examining various sectors of the economy. The evaluation of your performance will be based on four problem sets (20%), one midterm (30%) and one final (50%). Three books are required:


All required readings not in the books are in the reader, also required. A background text that you may wish to refer to is:


Textbooks that may be useful for more elementary review include:


Required readings are denoted by an asterisk (*), recommended readings by an (r).

1. INTRODUCTION AND STATISTICAL BACKGROUND


2. RATIONAL EXPECTATIONS WITHOUT AND WITH NOMINAL RIGIDITIES


* *AM*, Sections 6.0-6.8.


### 3. IMPLICATIONS OF COSTLY PRICE ADJUSTMENT

* *AM*, Sections 6.10-6.13.


* George Akerlof and Janet Yellen, 1985, "Can Small Deviations from Rationality Make Significant Differences to Economic Equilibria?" *AER 75*(Sept.), pp 708-720.

### 4. IMPLICATIONS OF IMPERFECT COMPETITION


Oliver Hart, 1982, "A Model of Imperfect Competition with Keynesian Features," *QJE 97*(February); Chapter 12 in *MR1.*

* N. Gregory Mankiw, 1988, "Imperfect Competition and the Keynesian Cross," *Economic Letters* 26; Chapter 14 in *MR1.*

* Robert Hall, 1988, "Market Structure and Macroeconomic Fluctuations," *BPEA*(2); Chapter 15 in *MR1.*

### 5. CONSUMPTION

* *AM*, Chapter 7.


6. INVESTMENT AND CAPITAL THEORY

6.1 Investment Theory

* AM, Section 8.0-8.5.


6.2. Financing Hierarchies

* AM, Section 8.7-8.8.


* Carl Walsh, forthcoming, Monetary Theory and Policy, Chapter 7 "The Credit Channel of Monetary Policy."

6.3. The Stock Market


7. MONETARY POLICY AND BUSINESS CYCLES


* Frederic Mishkin, A Rational Expectations Approach to Macroeconomics: Testing Policy


### 8. UNEMPLOYMENT

* *AM*, Section 10.1.

#### 8.1. Implicit Contracts

*AM*, Section 10.5.


#### 8.2. Efficiency Wage Models

* *AM*, Section 10.2-10.3.


*AM*, Section 10.4.


#### 8.3. Search Theory and Employment Externalities

*AM*, Section 10.8.

* Peter Diamond, 1982, "Aggregate-Demand Management in Search Equilibrium," *JPE* 90(5); Chapter 18 in *MR2*.

#### 8.4. Hysteresis in Unemployment

* *AM*, Sections 10.6-10.7.