

University of California at Irvine  
Department of Economics

**Economics 210F:  
Macroeconomic Theory and Evidence III**

Spring 2009

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<b>Office Hours</b>	: Wed 3:30 – 5:30 (or by appointment)
<b>Time and Location of the Lectures:</b>	Tue & Thu 5:00 – 6:20, SSPA 3132
<b>Course Webpage</b>	: <a href="http://www.socsci.uci.edu/~mouyang/econ210F.htm">http://www.socsci.uci.edu/~mouyang/econ210F.htm</a>

**COURSE DESCRIPTION**

My part of the first-year graduate macroeconomic sequence, a continuation of *Econ 210D* and *Econ 210E*, will explore both theory and evidence in macroeconomics. Four major topics will be covered: empirical exploration of the life-cycle hypothesis, empirical exploration of business cycles, theories and evidence on the macro aspects of the labor market, and the link between business cycles and growth.

One of the objectives is to continue the introduction of dynamic programming by emphasizing *intuition* and *application with data*. Another objective is to expose you to theoretical and empirical research of macroeconomics, which will hopefully provide a role model for your future research.

There is no required textbook. Most of the articles that we will cover can be found in electronic format (for example: <http://www.jstor.org>, <http://www.nber.org/papers>, <http://ideas.repec.org>). Photocopies of documents that are not available in electronic format will be put on reserve in Vanessa's office. Please return them immediately after making photocopies. Starred articles (\*) are those most likely to be covered in class.

However, the following books (some of which you may have already) are highly recommended. They will serve as useful references in the future.

- David Romer, *Advanced Macroeconomics*, 3<sup>rd</sup> edition.
- Lars Ljungqvist and Thomas J. Sargent, *Recursive Macroeconomic Theory*, 2<sup>nd</sup> Edition.
- Olivier J. Blanchard and Stanley Fischer, *Lectures on Macroeconomics*.
- Davis, S., J. Haltiwanger and S. Schuh, *Job Creation and Destruction*.

- Thomas F. Cooley (Editor), *Frontiers of Business Cycle Research*.
- Ricardo Caballero, *The Macroeconomics of Specificity and Restructuring* (in press).

## **GRADING**

Your grade for the course will be based on problem sets (40%) and a final exam (60%).

## **LECTURE OUTLINE**

This course outline and the reading list are subject to revisions. Please check the course webpage regularly.

<b>Week</b>	<b>Topic</b>
Week #1	Empirical Explorations of Life Cycle Hypothesis: with aggregate data
Week #2	Empirical Evidence of Life Cycle Hypothesis: with household data.
Week #3	Empirical Exploration of Business Cycles: pro-cyclical productivity.
Week #4	Empirical Exploration of Business Cycles: expansionary or contractionary technology?
Week #5	Labor Market Evidence: unemployment and reallocation
Week #6	Labor Market Theories: search and matching models
Week #7	Labor Market Evidence: a revisit
Week #8	Labor Market Institutions: theories and evidence
Week #9	Business Cycles and Growth: the long-run impact of business cycles.
Week #10	Business Cycles and Growth: the creative destruction

## **READING LIST**

### **READING LIST (subject to revisions)**

#### **I. Consumption: Evidence**

##### **A. Life-cycle Permanent Income Hypothesis**

Romer, Chapter 7.

Cochrane, J. "A Simple Test of Consumption Insurance," *Journal of Political Economy*, 1991.

- \*Hall, R. “Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence,” *Journal of Political Economy*, 1978.
- Hsieh, C. “Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund”, *American Economic Review*, 2003.
- \*Shea, J. “Union Contracts and the Life Cycle-Permanent Income Hypothesis,” *American Economic Review*, 1995.
- \*Shea, J. “Myopia, Liquidity Constraints, and Aggregate Consumption: A Simple Test,” *Journal of Money, Credit and Banking*, 1995.
- \*Wilcox, D. “Social Security Benefits, Consumption Expenditure, and the Life Cycle Hypothesis,” *Journal of Political Economy*, 1989.
- \*Zeldes, S. “Consumption and Liquidity Constraints: an Empirical Investigation,” *Journal of Political Economy*, 1989.

## **B. Alternative Models**

- \*Deaton, A, “Saving and Liquidity Constraints,” *Econometrica*, 1991.
- Carrol, Chris, “How Does Future Income Affect Current Consumption?” *Quarterly Journal of Economics* 109, 1994, pp111-147.
- Fuchs-Schündeln, N. and M. Schündeln, “Precautionary Savings and Self-Selection - Evidence from the German Reunification ‘Experiment’,” *Quarterly Journal of Economics*, 2005.
- Hubbard, Glenn, Skinner, Jonathan; and Stephen Zeldes, “Precautionary Saving and Social Insurance,” *Journal of Political Economy* 103, 1995, pp.360-399.
- Laibson, David, “Golden Eggs and Hyperbolic Discounting,” *Quarterly Journal of Economics*, 1997.
- \*Zeldes, S. “Optimal Consumption with Stochastic Income: Deviations from Certainty Equivalence,” *Quarterly Journal of Economics*, 1989.

## **II. Business Cycles: Evidence**

- Abraham, K. and J. Haltiwanger. “Real Wages and the Business Cycle,” *Journal of Economic Literature*, 1995.

\*Christiano, L. and Fitzgerald, "[The Business Cycle: It's Still a Puzzle](#)," *Economic Perspectives*, Federal Reserve Bank of Chicago, 1998.

Cooley, Thomas and Prescott, Edward. "Economic Growth and Business Cycles", in Thomas Cooley, (Ed.), *Frontiers of Business Cycle Research*, Princeton, 1994.

\*Bartelsman, B. and J. Haltiwanger. "Labor Productivity: Structural Change and Cyclical Dynamics," *Review of Economics and Statistics*, 2001.

\*Basu, S. "Procyclical Productivity: Increasing Returns or Cyclical Utilization?" *Quarterly Journal of Economics*, 1996.

\*Basu, S., J. Fernald, and M. Kimball, "Are Technology Improvements Contractionary?" *American Economic Review*, 2007, also available as NBER Working Papers 10592, 2004.

\*Michelle Alexopoulos, "Read All About it: What happens following a technology shock," Department of Economics, University of Toronto, 2004.

\*Shea, J. "What Do Technological Shocks Do?" Bernanke, B. and J. Rotemberg, (Ed.), *NBER Macro Annual* 1998.

\*Yongsung Chang & Jay H. Hong, "Do Technological Improvements in the Manufacturing Sector Raise or Lower Employment?," *American Economic Review*, March 2006.

### **III. Labor Market**

Romer, Chapter 9.

\* Davis, S., J. Faberman and J. Haltiwanger, "The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links," *Journal of Economic Perspectives*, Summer, 2006.

\* Davis, S. and J. Haltiwanger, "Gross Job Flows," *Handbook of Labor Economics*, Amsterdam: North-Holland, 1999.

\*Hall, R. "[Job Loss, Job Finding, and Unemployment in the U.S. Economy over the Past Fifty Years](#)," *NBER Macro Annual* 2005. [Comment](#) by Davis; [Comment](#) by Kennan.

\*Shimer, Robert. "Reassessing the Ins and Outs of Unemployment," Department of Economics, University of Chicago, 2005.

\* Shimer, Robert. "The Cyclical Behavior of Equilibrium Unemployment and Vacancies," *American Economic Review*, vol. 95(1), pages 25-49, March 2005.

Barlevy, G., "The Sullyng Effect of Recessions," *Review of Economic Studies*, 2002.

\*Mortensen, D. and Pissarides, C. "Job Creation and Job Destruction in the Theory of Unemployment," *Review of Economic Studies*, 1994.

\* Caballero, R. and Hammour, M. "The Cleansing Effect of Recessions," *American Economic Review*, 1994

Pries, M. "Persistence of Employment Fluctuations: a Model of Recurring Job Loss." *Review of Economic Studies*, 2004.

Pries, M. and Rogerson, R. "Hiring Policies, Labor Market Institutions, and Labor Market Flows," *Journal of Political Economy*, 2005.

\*Shimer, R. "The Cyclical Behavior of Equilibrium Unemployment and Vacancies," *American Economic Review*, 2005.

Ouyang, M. "The Scarring Effect of Recessions," University of California at Irvine, 2007.

#### **IV. Business Cycles and Growth:**

##### **A. The Long-run Impact of Business Cycles**

\*Aghion, P. and G. Saint-Paul, "Virtues of Bad Times: Interaction Between Productivity Growth and Economic Fluctuations," *Macroeconomic Dynamics*, 1998.

Barlevy, G. "The Cost of Business Cycles under Endogenous Growth," *American Economic Review*, 2004.

Barlevy, G. "On the Timing of Innovation in Stochastic Schumpeterian Growth Models," NBER Working Papers 10741, 2004.

Ramey, G., and V. Ramey, "Cross-country Evidence on the Link between Volatility and Growth," *American Economic Review*, 1995.

##### **B. Creative Destruction Models**

\*Aghion, P. and Howitt, P. "A Model of Growth through Creative Destruction," *Econometrica*, 1992.

\*Aghion, P. and Howitt, P. "Growth and Unemployment," *Review of Economic Studies*, 1994.

\*Caballero, R. and M. Hammour, "The Cleansing Effect of Recessions," *American Economic Review*, 1994.

\*Caballero, R. and M. Hammour, "On the Timing and Efficiency of Creative Destruction," *Quarterly Journal of Economics*, 1996.

Caballero, R. and M. Hammour, "The Cost of Recessions Revisited: A Reverse Liquidationist View," *Review of Economic Studies*, 2005.