

2013-2014: MODULE DESCRIPTION

Module	Macroeconomics B
Module code	ECOM009
Credit value	15 units
Module convenor:	Giulio Fella Email: g.fella@qmul.ac.uk Office hours: Room W302, Mondays 10-12
Formal assessment	The final mark for the course will be made up of two components. 25% of the overall mark will be determined by your average mark in the weekly problem sets. The remaining 75% is determined by your mark in the two-hour, end-of-year exam.
Other assessment	NA

Teaching arrangements

Lectures (2 hours, weekly)	Fridays 9-11, Room E303
Support classes (1 hour, weekly)	Fridays 11-12, Room E303

Teaching team and contact details

Giulio Fella	g.fella@qmul.ac.uk
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Module Overview

The course deals with three main topics:

- Consumption and saving: we start by studying *individual* optimal saving decisions when income is uncertain. Within this framework we are interested in the response of consumption/saving to changes in income and wealth and to income uncertainty. We then study *aggregate* saving using a model of overlapping generations. This allows to introduce heterogeneity and life-cycle issues.
- Asset pricing: we explore the asset-price implications of optimal intertemporal choice and rational expectations.
- Investment: we study the firm optimal investment choice in the presence of various types of adjustment costs and the implications for aggregate investment.

THE CONSUMPTION/SAVING CHOICE UNDER UNCERTAINTY

Lecture 1: Revision of dynamic optimization.

Lecture 2: Consumption stylized facts and introduction to the theory.

Lecture 3: The Permanent Income Hypothesis and its implications.

Lecture 4: Precautionary buffer-stock saving

OVERLAPPING GENERATIONS

Lecture 5: The overlapping generation (OLG) model.

Lecture 6: Steady state and dynamics in the OLG model.

ASSET PRICING

Lecture 7: The consumption-based CAPM.

Lecture 8: The equity premium puzzle.

INVESTMENT

Lecture 9: Investment stylized facts and introduction to the neoclassical theory of investment.

Lecture 10: Investment with convex adjustment costs.

Lecture 11: Investment with lumpy adjustment costs.

Reading List

There is no main textbook for the course. David Romer's Advanced Macroeconomics (DR in what follows) covers most of the topics but sometimes with a different emphasis. We will integrate it with lecture notes, articles and book chapters. The lecture notes and starred items in the reading list constitute required readings. Other useful readings are listed as a reference for the interested student.

THE CONSUMPTION/SAVING CHOICE UNDER UNCERTAINTY

- * Bagliano, Fabio and Giuseppe Bertola (2003), chapter 1.1-1.3, *Models for Dynamic Macroeconomics*, OUP.
- * Attanasio, Orazio P. and Guglielmo Weber (2010), Consumption and Saving: Models of Intertemporal Allocation and Their Implications for Public Policy, *Journal of Economic Literature* **48**, 693-751.
- * Carroll, Christopher D. (2001), A Theory of the Consumption Function: With and Without Liquidity Constraints, *Journal of Economic Perspectives* **15**, 23-45.
- * Aiyagari, Rao (1994), "Uninsured Idiosyncratic Risk and Aggregate Saving," *Quarterly Journal of Economics*, 659-684.
- * Ljungqvist, Lars and Thomas Sargent (2005), Chapters 16 and 17.3-17.6, *Recursive Macroeconomics*, Cambridge: MIT press.

Deaton, Angus (1992), *Understanding Consumption*, Oxford: Oxford University Press.

DR chapter 7.1-7.4

OVERLAPPING GENERATIONS

- * DR, chapter 2 part B

ASSET PRICING

- * Ljungqvist, Lars and Thomas Sargent (2005), Chapters 13.1-13.3, 13.5-13.8, 13.11-13.14 and 17.3-17.6, *Recursive Macroeconomics*, Cambridge: MIT press.
- * Imrohorglu, Selahattin (2009), "Data Adjustments and the Equity Premium," Working Paper UCSB.

DR chapter 7.5

Mehra, Rajnish, and Edward Prescott (1985), "The Equity Premium Puzzle," *Journal of Monetary Economics* **15**, 145-161.

Kocherlakota, Narayana (1986), "The Equity Premium: It's Still a Puzzle," *Journal of Economic Literature* **34**, 42-71.

McGrattan, Ellen R. , and Edward C. Prescott (2003), "Average Debt and Equity Returns: Puzzling?" Federal Reserve bank of Minneapolis, Research Department, Staff Report Number 313.

INVESTMENT

* DR, chapter 8.1-8.6

* Caballero, Ricardo (2000), Aggregate Investment, chapter 12 p. 814-824, *Handbook of Macroeconomics*, Amsterdam: North Holland.

Caballero, Ricardo and John Leahy (1996), "Fixed Costs: The Demise of Marginal q ," NBER Working Paper 5508, p. 1-7

Khan, Aubhik and Julia K. Thomas (2008), Idiosyncratic Shocks and the Role of Nonconvexities in Plant and Aggregate Investment Dynamics." *Econometrica* 76 ,395-436.

Other advice about the module

Aims

The course introduces the main theoretical contributions within each set of topics and critically assesses their strength and limitations in the light of the empirical evidence.

Learning outcomes

On successful completion of the course you should:

1. be familiar with the empirical evidence concerning the issues covered in the course;
2. understand the most important ideas behind the theories of saving/consumption, consumption-based asset pricing and investment;
3. be able to use the models introduced in class to answer policy questions.