ECN 200E: Macroeconomic Theory

Spring 2010

Kevin Salyer
University of California, Davis
What is Macroeconomics??

Dynamic, Stochastic General Equilibrium Models

Recursive Equilibrium Theory

Quantitative Aggregate Economics
We begin with growth theory

- Robert Solow, Nobel 1987
Then move to optimal growth (endogenous savings)

- David Cass and Tjalling Koopmans (1975 Nobel Prize)
Growth Theory

Topics:

- The role of inputs and technological progress in economic growth.
- Do economies converge in their rates of growth? (briefly)

Techniques:

- Dynamic linear systems
- Dynamic optimization (Hamiltonian)
On to Recursive Equilibrium Theory

Robert Lucas, Nobel 1995
Recursive Equilibrium

Topics
- Asset pricing under uncertainty – the equity premium puzzle.
- Optimal Savings under uncertainty.

Techniques
- Dynamic Programming
- Discrete State Markov Chains
- Calibration
Followed by Quantitative Macro

Finn Kydland and Ed Prescott, Nobel 2004
Quantitative Macroeconomics

Topics
- Real Business Cycle Theory
- Self-fulfilling expectations (sunspot models) (briefly)

Techniques
- Linearizing around steady-state
- Solving for rational expectations solution
Monetary Economics

- Money in the utility function models
- Cash-in-Advance models
- New Keynesian monetary framework – the new IS-LM (maybe)
For Wednesday:

- “Methods and Problems in Business Cycle Theory”
- The excerpt from “Models of Business Cycles”
- And Krugman, Cochrane and Kocherlakota on the state of Macroeconomics
The Great Recession has caused angst in the profession

Krugman: How Did Economists Get it So Wrong?

Cochrane: How did Paul Krugman Get it So Wrong?

Kocherlakota: Some Thoughts on the State of Macro (a reasoned approach)