

ADVANCED MACROECONOMIC THEORY

STUDY GROUP

1 Rationale

The Advanced Macroeconomic Theory study group is designed to equip postgraduate students of macroeconomics with a solid theoretical grounding at a more advanced level. The selected material is formulated around important concepts; results; and modelling approaches, all intended to enhance the student's analytical/research ability. Behavioural aspects of aggregated individual/household decision sets derive notable attention throughout the content, adding an extra dimension to the standard macroeconomic framework.

2 Structure

The study group is open to all postgraduate students within the School of Economics and Finance. Participants will meet once-a-week for an approximate duration of 2 - 3 hours. Each meeting, the required topics/readings will be discussed in detail and compulsory problems sets will be worked through. Students who fail to display a legitimate attempt at having worked through the required problem sets will find it difficult to contribute, hence will be disqualified from attendance. Involvement of academic staff from within the school will be appreciated when encountering relatively more complex content and will be arranged at the time.

3 Study Group Coordinators

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and

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4 Content

Required Textbook:

David Romer, *Advanced Macroeconomics*, 3rd Edition, McGraw-Hill, 2005.

4.0.1 Introduction/Overview

George Akerlof

Behavioral Macroeconomics and Macroeconomic Behavior
American Economic Review, June 2002, pp. 411-433.

4.0.2 Equilibrium Concepts

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 6.

Microeconomic Foundations of Incomplete Nominal Adjustment

Sections 6.1 - 6.3 (pp. 271-285) and 6.9 - 6.10 (pp. 316-326).

Daniel Kahneman, Jack Knetsch and Richard Thaler

Fairness as a Constraint on Profit Seeking: Entitlements in the Market

American Economic Review, September 1986, pp. 728-741.

Eldar Shafir, Peter Diamond, and Amos Tversky

On Money Illusion

Quarterly Journal of Economics, May 1997, pp. 341-374.

4.0.3 New Keynesian Theories

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 9.

Unemployment

Sections 9.1 - 9.4 (pp. 437-460) and 9.9 (pp. 481-489).

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 6.
New Keynesian Economics
Sections 6.4 - 6.6 (pp. 286-302).

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 6.
Empirical Applications, and, Mankiw-Reis Model
Sections 6.12 - 6.13 (pp. 328-339).

Janet Yellen
Efficiency Wage Models of Unemployment
American Economic Review, May 1984, pp. 200-205.

George Akerlof and Janet Yellen
A Near Rational Model of the Business Cycle, with Wage and Price Inertia
Quarterly Journal of Economics, September 1985, pp. 823-838.

Ernst Fehr and Jean-Robert Tyran
Does Money Illusion Matter?
American Economic Review, December 2001, pp. 1239-62.

4.0.4 Demand for Money and Supply-Side Macroeconomics

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 6.
The Caplin-Spulber Model
Section 6.11 (pp. 326-328).

Ricardo Caballero, Eduardo Engel, and John Haltiwanger
Plant-Level Adjustment and Aggregate Investment Dynamics
Brookings Papers on Economic Activity, 1995:2, pp. 1-39.

4.0.5 The Open Economy

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 5.

The Open Economy

Section 5.2 (pp. 231-241).

Rudiger Dornbusch

Expectations and Exchange Rate Dynamics

Journal of Political Economy, December 1976, pp. 1161-1176.

4.0.6 Consumption

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 7.

Consumption

Sections 7.1 - 7.4 (pp. 346-365) and 7.6 (pp. 370-385).

Chang-Tai Hsieh

Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund

American Economic Review, March 2003, pp. 397-405.

Richard Thaler and Shlomo Benartzi

Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving

Journal of Political Economy, 112:1 Pt.2, Feb. 2004, pp. S164-S187.

4.0.7 Investment

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 8.

Investment

Franklin Allen and Douglas Gale

Bubbles and Crises

Economic Journal, January 2000, pp. 1-20.

4.0.8 **Monetary Policy, Inflation and the Central Bank**

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapter 10.

Inflation and Monetary Policy

Robert Barro and David Gordon

A Positive Theory of Monetary Policy in a Natural Rate Model

Journal of Political Economy, August 1983, pp. 589-610.

4.0.9 **Nature of Unemployment and Theories of Unemployment**

David Romer, *Advanced Macroeconomics*, 3rd Edition, Chapters 6 and 9.

Coordination Failure Models and Real Walrasian Theories

Sections 6.7 (pp. 303-309) and 9.5 - 9.8 (pp. 460-481).

Peter Diamond

Aggregate Demand Management in Search Equilibrium

Journal of Political Economy, October 1982, pp. 881-894.

Peter Howitt and Robert Clower

The Emergence of Economic Organization

Journal of Economic Behavior and Organization, January 2000, pp. 55-84.