Macro II

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Course Description:

This course presents the standard frameworks used in the literatures on consumption, asset pricing and growth. These literatures feature decision making over time and under uncertainty. Dynamic programming will be emphasized as a method for formulating and solving decision problems with these features. Dynamic programming will also influence how we define notions of equilibrium.

Several homeworks will involve using standard programming languages (e.g. Matlab) to compute equilibria or solutions to dynamic programming problems. You should get to know one of these languages quickly.

Textbook:

Recursive Macroeconomic Theory- Sargent and Ljungqvist (2000)

Grading: Homeworks (20 %), Midterm (30 %) and Final (50 %)

Outline:

1. Methodology / Background Reading
   Lucas (1981 a, 1981 b)
2. Dynamic Programming
   Finite horizon and infinite horizon problems
   Properties of value functions and decision rules
   Readings: Sargent and Ljungqvist (2000, CH 2-5 and CH 20) is useful for getting started. Stokey and Lucas (1989, CH 2-4) is the standard reference for deterministic and stochastic dynamic programming methods.
3. Consumption and Savings Problems
   OVERVIEW: Sargent and Ljungqvist (2000, CH 13)
Schechtman (1976), Deaton (1992) and Attanasio (1999)

4. Asset Pricing

OVERVIEW: Ljungqvist and Sargent CH 10 and Cochrane (2001)
Lucas (1978)
Mehra and Prescott (1985)
Hansen and Jagannathan (1991)
Cogley (2002)

5. Neoclassical Growth Model

OVERVIEW: Ljungqvist and Sargent CH 11
Measuring Technological Change
Solow (1957)
Efficient Allocations and Competitive Equilibrium Allocations
Business Cycle Fluctuations
Cooley and Prescott (1995)
Computation
Finite DP, Euler Equation, Taylor Series Approximation Methods

6. Heterogeneous Agent Models

OVERVIEW: Ljungqvist and Sargent CH 13 and Rios-Rull (1995)
Imrohoroglu (1989)
Huggett (1993, 1996)
Aiyagari (1994)
Krusell and Smith (1998)

7. Efficient Social Insurance

Ljungqvist and Sargent CH 15
Cochrane (1991) and Hopenhayn and Nicolini (1997)

References:


Attanasio (1999), Consumption, Handbook of Macroeconomics.


http://ideas.uqam.ca/ideas/data/Papers/fipfedfam98-07.html


