47809 – Macroeconomics 2

Ali Shourideh

Instructor: Ali Shourideh
E-mail: ashourid@andrew.cmu.edu
Office: TEP 5103
Office Hours: by appointment.

Class room number: TEP 5219
Class times: Mon-Wednesday 10:30am -12:20pm

TAs: Zahra Ebrahimi (zebrahim@andrew.cmu.edu), Diana Mikhail (dmikhail@andrew.cmu.edu)

Course Description

This is the second class in the PhD macroeconomics sequence. Our focus will be on macroeconomic models that incorporate heterogeneity.

Thursday Coffee Hours

Every Thursday afternoon at 2:30PM, we will have a macro coffee hour where we talk about macro and other issues in grad school. We'll meet in my office and head out for coffee.

Course Materials

There is no textbook for this class as we will focus more on papers. However, the recommended accompanying textbooks are:

> Recursive Macroeconomic Theory, Third Edition, 2012, Lars Ljungqvist and Thomas Sargent, MIT Press,
>
> Recursive Methods in Economic Dynamics, 1989, Nancy Stokey, Robert Lucas, and Ed Prescott, Harvard University Press.

Additional useful textbook (but not required) is:

> Introduction to Modern Economic Growth, 2009, Daron Acemoglu, Princeton University Press

Grading

Grading will be based on:

1. Homeworks, 60%
2. Final project, 40%

There are two types of home works: 1. Written home works that are similar to those in the second mini. 2. Home works that are based on reading papers that we study in class. Every week two papers are assigned to the students: these could be papers that I will teach or papers related to the topic of that week. They should read it and prepare a 5-10 minute presentation. In each class, one student is chosen randomly to give his/her 5-10 minute presentation. As we go along, I will adjust the probabilities so that every student presents twice in expectation.

Final Project: During the semester, you have to choose a research question of your interest - obviously related to the topics discussed in class; come up with one or two papers that are related and summarize them and finally flesh out a new idea on how to answer your question in a way that is new to the literature. Once the mini is over, we meet for a session with student presentations.

Schedule and course outline

The following is a tentative schedule organized by weeks.

Lectures		
1 and 2	Search and Labor Markets	Search and Labor Markets
3 and 4	Search and Labor Markets	Income Fluctuation Problem
5 and 6	Incomplete Markets	Incomplete Markets
7 and 8	Risk sharing and consumption	Trade
9 and 10	Trade	Trade and Inequality
11 and 12	Trade and Inequality	Firm Dynamics
13 and 14	Innovation	Innovation

Papers (to be presented)

Week 2

Labor Markets

Postel-Vinay, F., and Robin, J. M. (2002). Equilibrium wage dispersion with worker and employer heterogeneity. Econometrica, 70(6), 2295-2350.

Burdett, K., and Mortensen, D. T. (1998). Wage differentials, employer size, and unemployment. International Economic Review, 257-273.

Burdett, K., and Judd, K. L. (1983). Equilibrium price dispersion. Econometrica, 51(4), 955-969.

Income Fluctuation Problem

Hall, R. E. (1978). Stochastic implications of the life cycle-permanent income hypothesis: theory and evidence. Journal of Political Economy, 86(6), 971-987.

Week 3

Incomplete Markets

Aiyagari, S. R. (1994). Uninsured idiosyncratic risk and aggregate saving. The Quarterly Journal of Economics, 109(3), 659-684.

Huggett, M. (1993). The risk-free rate in heterogeneous-agent incomplete-insurance economies. Journal of Economic Dynamics and Control, 17(5-6), 953-969.

Krusell, P., and Smith, Jr, A. A. (1998). Income and wealth heterogeneity in the macroeconomy. Journal of Political Economy, 106(5), 867-896.

Wang, N. (2003). Caballero meets Bewley: The permanent-income hypothesis in general equilibrium. American Economic Review, 93(3), 927-936.

Week 4 & 5

Risk Sharing

Townsend, R. M. (1994). Risk and insurance in village India. Econometrica, 62(3) 539-591.

Cochrane, J. H. (1991). A simple test of consumption insurance. Journal of Political Economy, 99(5), 957-976.

Kocherlakota, N. R. (1996). Implications of efficient risk sharing without commitment. The Re-

view of Economic Studies, 63(4), 595-609.

Trade

Dornbusch, R., Fischer, S., and Samuelson, P. A. (1977). Comparative advantage, trade, and payments in a Ricardian model with a continuum of goods. The American Economic Review, 67(5), 823-839.

Eaton, J., and Kortum, S. (2002). Technology, geography, and trade. Econometrica, 70(5), 1741-1779.

Melitz, M. J. (2003). The impact of trade on intra?industry reallocations and aggregate industry productivity. Econometrica, 71(6), 1695-1725.

Week 5 & 6

Trade and Inequality

Costinot, A., and Vogel, J. (2010). Matching and inequality in the world economy. Journal of Political Economy, 118(4), 747-786.

Burstein, A., and Vogel, J. (2017). International trade, technology, and the skill premium. Journal of Political Economy, 125(5), 1356-1412.

Grossman, G. M., Helpman, E., and Kircher, P. (2017). Matching, sorting, and the distributional effects of international trade. Journal of Political Economy, 125(1), 224-264.

Helpman, E., Itskhoki, O., and Redding, S. (2010). Inequality and unemployment in a global economy. Econometrica, 78(4), 1239-1283.

Week 6 & 7

Firm Dynamics and Innovation

Hopenhayn, Hugo A. "Entry, exit, and firm dynamics in long run equilibrium." Econometrica (1992): 1127-1150.

Kortum, S. S. (1997). Research, patenting, and technological change. Econometrica: Journal of the Econometric Society, 1389-1419.

Klette, T. J., and Kortum, S. (2004). Innovating firms and aggregate innovation. Journal of Political Economy, 112(5), 986-1018.

Luttmer, E. G. (2007). Selection, growth, and the size distribution of firms. The Quarterly Journal of Economics, 122(3), 1103-1144.

Lentz, R., and Mortensen, D. T. (2005). Productivity growth and worker reallocation. International Economic Review, 46(3), 731-749.

Luttmer, E. G. (2014). An Assignment Model of Knowledge Diffusion and Income Inequality. Federal Reserve Bank of Minneapolis Research Department Staff Report, 715.

Not necessarily on innovation but related: Perla, J., and Tonetti, C. (2014). Equilibrium imitation and growth. Journal of Political Economy, 122(1), 52-76.