

## **ECONOMICS 202A READING LIST**

**Professors Maurice Obstfeld and David Romer**

**Fall Semester 2011**

**Main Textbook:** David Romer, *Advanced Macroeconomics*, Fourth Edition (New York: McGraw-Hill, 2012).

### **Part I: August 25 - October 25 (Mid-Term Examination)**

**GSI and Instructor Office Hours:** Slavik Sheremirov office hours M 10:30-11:30 A.M. and Th 8:30-9:30 A.M., location TBA. Obstfeld office hours W 1 – 2 P.M., 699 Evans.

#### **I. Long-Run Growth: The Solow Model and Growth Accounting**

\*David Romer, *Advanced Macroeconomics*, Chapter 1.

\*Robert M. Solow, "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, February 1956, pp. 65-94.

\*Edmund S. Phelps, "The Golden Rule of Accumulation: A Fable for Growthmen," *American Economic Review*, September 1961, pp. 638-643.

\*Robert E. Hall and Charles I. Jones, "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, February 1999, pp. 83-116.

Peter J. Klenow and Andres Rodríguez-Clare, "The Neoclassical Revival in Growth Economics: Has It Gone Too Far?" *NBER Macroeconomics Annual*, 1997, pp. 73-103.

Robert E. Lucas, Jr., "Why Doesn't Capital Flow from Rich to Poor Countries?" *American Economic Review*, May 1990, pp. 92-96.

William A. Brock and M. Scott Taylor, "The Green Solow Model," *Journal of Economic Growth*, June 2010, pp. 125-153.

#### **II. Long-Run Growth: The Ramsey-Cass-Koopmans Model**

\*David Romer, *Advanced Macroeconomics*, Chapter 2, Part A.

Robert J. Barro and Xavier Sala-i-Martin, *Economic Growth*, Second Edition (Cambridge: MIT Press, 2004), Chapter 2 and Appendix A.3 (at end of book).

Robert J. Barro. "Laibson Meets Ramsey in the Neoclassical Growth Model." *Quarterly Journal of Economics*, November 1999, pp. 1125–1152.

\*Olivier J. Blanchard and Charles M. Kahn, "The Solution of Linear Difference Models under Rational Expectations," *Econometrica*, September 1980, pp. 1305-1311.

\*Maurice Obstfeld, "Dynamic Optimization in Continuous-Time Models (A Guide for the Perplexed)," manuscript, UC Berkeley, April 1992. Available at: <http://www.econ.berkeley.edu/~obstfeld/ftp/perplexed/cts4a.pdf>

Martin Weitzman, *Income, Wealth, and the Maximum Principle* (Cambridge, MA: Harvard University Press, 2003).

### **III. Overlapping Generations: Growth, Dynamic Efficiency, and Public Debt**

\*David Romer, *Advanced Macroeconomics*, Chapter 2, Part B.

Andrew B. Abel, N. Gregory Mankiw, Lawrence H. Summers, and Richard J. Zeckhauser, "Assessing Dynamic Efficiency: Theory and Evidence," *Review of Economic Studies*, January 1989, pp. 1-19.

\*Robert J. Barro, "Are Government Bonds Net Wealth?" *Journal of Political Economy*, November/December 1974, pp. 1095-1117.

Olivier J. Blanchard, "Debts, Deficits, and Finite Horizons," *Journal of Political Economy*, April 1985, pp. 223-247.

\*Peter A. Diamond, "National Debt in a Neoclassical Growth Model," *American Economic Review*, December 1965, pp. 1126-1150.

Alberto Martin and Jaume Ventura, "Economic Growth with Bubbles," Working Paper 15870, National Bureau of Economic Research, April 2010.

Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics* (Cambridge: MIT Press, 1996), pp. 445-448.

Paul A. Samuelson, "An Exact Consumption Loan Model of Interest with or without the Social Contrivance of Money," *Journal of Political Economy*, December 1958, pp. 467-482.

\*Jean Tirole, "Asset Bubbles and Overlapping Generations," *Econometrica*, November 1985, pp. 1499-1528.

### **IV. Long-Run Growth: Endogenous Growth Theory**

\*David Romer, *Advanced Macroeconomics*, Chapter 3.

Charles I. Jones, "Growth and Ideas," in Philippe Aghion and Steven Durlauf, eds., *Handbook of Economic Growth*, Volume 1B (Amsterdam: Elsevier, 2005), pp. 1063-1111.

\*Michael Kremer, "Population Growth and Technical Change: One Million B.C. to 1990," *Quarterly Journal of Economics*, August 1993, pp. 681-716.

Robert E. Lucas, Jr., "On the Mechanics of Economic Development," *Journal of Monetary Economics*, July 1988, pp. 3-42.

\*Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics* (Cambridge: MIT Press, 1996), pp. 473-496.

Paul M. Romer, "Endogenous Technical Change," *Journal of Political Economy*, October 1990 (Part 2), pp. S71-S102.

## **V. International Economics**

\*Ben Bernanke, "Remarks by Governor Ben S. Bernanke: The Global Saving Glut and the U.S. Current Account Deficit," March 10, 2005. Available at:  
<http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm>

Richard Dobbs et al., *Farewell to Cheap Capital? The Implications of Long-Term Shifts in Global Investment and Saving* (McKinsey Global Institute, 2010).

Rudiger Dornbusch, "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, December, 1976, pp. 1161-1176.

Francesco Giavazzi and Luigi Spaventa, "Why the Current Account Matters in a Monetary Union: Lessons from the Financial Crisis in the Euro Area," Discussion Paper 8008, Centre for Economic Policy Research (London), September 2010.

Paul Krugman, "Has the Adjustment Process Worked?" in *International Adjustment and Financing: The Lessons of 1985-1991*, edited by C. Fred Bergsten (Washington, DC: Institute for International Economics, 1991), pp. 277- 322.

\*Maurice Obstfeld and Kenneth Rogoff, "Global Imbalances and the Financial Crisis: Products of Common Causes," in Reuven Glick and Mark M. Spiegel, eds., *Asia and the Global Financial Crisis* (San Francisco: Federal Reserve Bank of San Francisco, 2010).

## Part II: October 27-December 7

**GSI and Instructor Office Hours:** Vico Vanasco, office hours TBA.

### VI. Current Crises in Macroeconomics<sup>a</sup>

*Economic Report of the President, 2010*, Chapter 2, “Rescuing the Economy from the Great Recession” (Washington, DC: Government Printing Office, 2010), pp. 39-56 only.

\*David Romer, *Advanced Macroeconomics*, fourth edition, “Epilogue,” pp. 644-648.

Carmen M. Reinhart and Kenneth S. Rogoff, *This Time is Different*, Chapter 14, “The Aftermath of Financial Crises” (Princeton: Princeton University Press, 2009), pp. 223-239.

\*Ben S. Bernanke, “Japanese Monetary Policy: A Case of Self-Induced Paralysis?” in Ryoichi Mikitani and Adam S. Posen, eds., *Japan’s Financial Crisis and Its Parallels to U.S. Experience* (Washington, D.C.: Institute for International Economics, 2000), pp. 149-166.

\*Narayana Kocherlakota, “Inside the FOMC,” Speech in Marquette, Michigan, August 2010.

\*Lee E. Ohanian, “The Economic Crisis from a Neoclassical Perspective,” *Journal of Economic Perspectives* 24 (Fall 2010), pp. 45-66.

\*Ricardo J. Caballero, “Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome,” *Journal of Economic Perspectives* 24 (Fall 2010), pp. 85-102.

\*David Romer, *Advanced Macroeconomics*, fourth edition, “Empirical Application: Is U.S. Fiscal Policy on a Sustainable Path?” pp. 590-592.

\*Alan Auerbach and William Gale, “Tempting Fate: The Federal Budget Outlook,” unpublished paper, June 2011.

### VII. Consumption

\*David Romer, *Advanced Macroeconomics*, fourth edition, Chapter 8, “Consumption,” Sections 8.1-8.4 and 8.6, pp. 365-384 and 389-398.

Milton Friedman, *A Theory of the Consumption Function*, Chapters 1-3, pp. 3-37.

Robert Hall, “Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence,” *Journal of Political Economy*, December 1978, pp. 971-987.

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<sup>a</sup> Week of October 4.

\*Chang-Tai Hsieh, "Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund," *American Economic Review*, March 2003, pp. 397-405.

\*Jonathan A. Parker, Nicholas S. Souleles, David S. Johnson, Robert McClelland, "Consumer Spending and the Economic Stimulus Payments of 2008," unpublished paper, January 2011.

Claudia R. Sahm, Matthew D. Shapiro, and Joel B. Slemrod, "Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How It Is Delivered?" unpublished paper, June 2011. *American Economic Journal: Economic Policy*, forthcoming.

### **VIII. Investment**

\*David Romer, *Advanced Macroeconomics*, fourth edition, Chapter 9, "Investment," Sections 9.1-9.8, pp. 405-436.

Maurice Obstfeld and Kenneth Rogoff, *Foundations of International Macroeconomics* (Cambridge: MIT Press, 1996), pp. 105-113.

\*Jason Cummins, Kevin Hassett, and R. Glenn Hubbard, "A Reconsideration of Investment Behavior Using Tax Reforms as Natural Experiments," *Brookings Papers on Economic Activity*, 1994:2, pp. 1-74.

Lawrence Summers, "Taxation and Corporate Investment: A q-Theory Approach," *Brookings Papers on Economic Activity*, 1981:1, pp. 67-127.

### **IX. Financial Markets**

\*David Romer, *Advanced Macroeconomics*, fourth edition, Sections 8.5, 9.9, and 9.10, pp. 384-389 and 436-451.

Robert E. Lucas, Jr., "Asset Prices in an Exchange Economy," *Econometrica*, December 1978, pp. 1429-1445.

Michael C. Jensen and William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, October 1976, pp. 305-360.

Lawrence H. Summers, "Does the Stock Market Rationally Reflect Fundamental Values?" *Journal of Finance*, July 1985, pp. 591-601.

Rajnish Mehra and Edward C. Prescott, "The Equity Premium: A Puzzle," *Journal of Monetary Economics*, March 1985, pp. 145-161.

\*J. Bradford DeLong, Andrei Shleifer, Lawrence H. Summers, and Robert J. Waldmann, "Noise Trader Risk in Financial Markets," *Journal of Political Economy*, August 1990, pp. 703-738.

Andrei Shleifer and Robert Vishny, "The Limits of Arbitrage," *Journal of Finance*, March 1997, pp. 35-55.

\*Ben S. Bernanke, Mark Gertler, and Simon Gilchrist, "The Financial Accelerator and the Flight to Quality," *Review of Economics and Statistics*, February 1996, pp. 1-15.

Joe Peek and Eric R. Rosengren, "Collateral Damage: Effects of the Japanese Bank Crisis on Real Activity in the United States," *American Economic Review* 90 (March 2000), pp. 30-45.

## **X. Financial Crises**

\*Douglas Diamond and Philip Dybvig, "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, June 1983, pp. 401-419.

Gary Gorton and Andrew Metrick, "Securitized Banking and the Run on Repo," unpublished paper, November 2010. *Journal of Financial Economics*, forthcoming.

\*Ben Bernanke and Mark Gertler, "Financial Fragility and Economic Performance," *Quarterly Journal of Economics*, February 1990, pp. 87-114.

\*Bengt Holmström and Jean Tirole, "Private and Public Supply of Liquidity," *Journal of Political Economy*, February 1998, pp. 1-40.

Markus K. Brunnermeier, "Deciphering the Liquidity and Credit Crunch 2007-2008," *Journal of Economic Perspectives*, Winter 2009, pp. 77-100.