Economics 505: Macroeconomic Theory II

Instructor: Prof. Todd Keister
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Office hours: Mondays, 10:00 – 11:15 am or by appointment

Prerequisite: Economics 504, Macroeconomic Theory I, or equivalent.

Objectives and Learning Outcomes: This course is the second part of a two-semester sequence in macroeconomics. The sequence aims to introduce students to a broad range of issues at the Ph.D. level and to develop useful analytical tools for doing research in macroeconomics. This course will build on the dynamic models used in Economics 504 and will introduce frictions that allow us to study topics related to monetary policy, labor markets, unemployment, financial intermediation and financial crises.

Class meetings: Monday and Thursday, 11:30 - 12:50, Murray Hall 208

Attendance: Students are expected to attend all class meetings and to actively participate in discussions by asking and answering questions. If you will miss more than one class because of illness or a family emergency, please contact me as soon as possible.

Recitation Sections: There will be recitation sections devoted to solving problems or reviewing complementary material on Tuesdays, 11:30 - 12:50, in Murray Hall 115. These sections will not meet every week; meeting dates will be announced in advance.

Grading: Course grades will be based on the following:

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<tr>
<th>Component</th>
<th>Weight</th>
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<tr>
<td>Problem sets</td>
<td>10%</td>
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<tr>
<td>Exam 1</td>
<td>40%</td>
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<td>Exam 2</td>
<td>50%</td>
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<td>March 2 (Thursday)</td>
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<td>May 1 (Monday)</td>
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Students are allowed (and encouraged) to discuss and collaborate with each other on problem sets. The course material is difficult and you can learn a lot from each other by working together. Each student must submit an individual solution for grading, however.

Exams will be closed book: no use of notes or communication among students is permitted.

Academic Integrity: Students must follow the Rutgers Academic Integrity Policy, which is available at http://academicintegrity.rutgers.edu/academic-integrity-policy/. All academic integrity violations will be referred to the proper authorities and may have significant consequences.

Course Materials: We will draw material from many different sources, some of which are listed in the course outline below. Some useful reference books are:
Course outline: The outline below provides a tentative list of the topics we will cover along with selected readings for each topic. This list may be revised over the course of the semester.

**Part I: Markets with Search and Matching Frictions**

a) Introduction to job search (one-sided search)

   Ljungqvist & Sargent, Chapter 6
   Kehoe, Timothy J. (2011) “Notes on McCall’s model of job search.”
   Williamson, Section 7.1

b) Search and matching in the labor market (two-sided search)

   Pissarides, Chapters 1 – 3
   Williamson, Section 7.1

c) Search, production and exchange


d) Search and monetary exchange

   Williamson, Chapter 9
   Ljungqvist & Sargent, Chapter 28

Additional readings:

Part II: Financial intermediation and financial crises

Introductory readings:

Allen & Gale, Chapters 1 and 2

a) Demand deposits and bank runs

Allen & Gale, Chapters 3 and 5

b) Contagion: Why crises spread

Allen & Gale, Chapter 10

c) Policy responses to financial fragility


Part III: Overlapping generations

a) Pure exchange models: efficiency, dynamics, and money

Ljungqvist & Sargent, Chapter 9
Williamson, Chapter 10

b) Capital accumulation, money and banking in overlapping generations

Williamson Chapter 2