DEPARTMENT OF ECONOMICS
ECONOMICS 605: MACROECONOMIC THEORY II
Spring 2015

Professor: Dr. Caroline Betts
Class Meeting: Tues, Thurs 12.00pm - 1:50pm
Class Location: KAP 148
Office Hours: Tues 11.00pm - 12.00pm, and by appointment
Office Location: KAP 316C
Email: cbetts@usc.edu
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OVERVIEW

In this class we follow Macroeconomic Theory I in studying the tools and workhorse models of modern macroeconomics. The two workhorse models for most macroeconomic research are 1) the overlapping-generations model and 2) the neoclassical growth model. This course is devoted to the study of variants of these two models, which have been developed to answer specific research questions. The economies we study feature substantive deviations from the assumptions and results of the one sector neoclassical growth model which was the focus of Macroeconomic Theory I. For example, in economies inhabited by overlapping generations of agents, equilibria may be inefficient, there may be multiple equilibria, and fiat money may be valued; we study economies in which households are heterogeneous with respect to the risks that they face, may invest in a variety of financial instruments, and may not confront complete asset markets; and we analyze the features of economic growth when multiple production sectors are characterized by heterogeneous technologies or sector-specific factors, and may confront externalities. There are two lectures per week, and discussion sessions with the teaching assistant focusing on analytical and computational problem solving involving the models that we develop in lectures.

PROBLEM SETS

There will be four to six take home problem sets assigned throughout the semester which will be graded and returned. Some of the problems will require written and mathematical analysis; others will involve numerical and computational analysis. Answers will either be provided in TA discussion sessions, or in answer guides that will be made
available by the teaching assistant. Students are encouraged to work together in solving the problem sets. However, each problem set submitted for grading must ultimately be a student’s own work. i.e., copying of problem sets is not allowed. All problem sets must be submitted in order for a final grade for the course to be assigned.

**GRADING AND EXAMS**

There will be a mid-term examination, and a final examination. The midterm examination will be on *Tuesday, February 25* in class time (from 12.00 p.m. to 1.50 p.m.) and the final examination will be on *Wednesday, May 14* from 2.00 p.m. to 4.00 p.m. final grade in the course will weight problem sets, the mid-term and the final examination equally;

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<thead>
<tr>
<th>Exam Type</th>
<th>Date</th>
<th>Time</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Midterm Exam</td>
<td>Tuesday February 25</td>
<td>12-1.50 PM</td>
<td>1/3</td>
</tr>
<tr>
<td>Final Exam</td>
<td>Wednesday, May 14</td>
<td>2-4.00 PM</td>
<td>1/3</td>
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<tr>
<td>Assignments</td>
<td>Every two-three weeks</td>
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The midterm exam and final exam are not cumulative. The midterm and final examinations are mandatory and can be “made up” only on the basis of a documented medical or family emergency.

**ACADEMIC ACCOMMODATIONS**

Students requesting academic accommodations based on a disability are required to register with *Disability Service and Programs (DSP)* each semester. A letter of verification for approved accommodations can be obtained from DSP when documentation is filed. You should deliver the letter to me early in the semester. The telephone number for DSP is (213) 740-0776.

**ACADEMIC INTEGRITY**

The Department of Economics and this instructor in particular will be vigilant in supporting academic integrity practices and rules of this University, in investigating suspected violations of academic integrity, and in enforcing recommended sanctions including recommending dismissal from the university. For details on the rules and guidelines see SCampus.

**RECOMMENDED READING**

There is no required textbook for this course. The following are some recommended textbooks, each of which covers some but not all of the topics that we will cover in class, but all of which are valuable references.


In addition, some core research papers will be assigned as reading material as the course progresses. Below is an outline of topics, and a preliminary set of textbook and research paper readings, although others will be referenced in class.

**OUTLINE**

### 1. Overlapping Generations Economies

- Pure exchange economy and monetary equilibria
- Production and growth
- Comparison to infinite horizon model

**Readings**

Ljungqvist and Sargent, Chapter 8 (or 9, depending on edition) “Overlapping Generations Models.”

Sargent, Chapter 7.

Stokey et al., Chapter 17.


### 2. Asset Pricing

- Review of the optimal and stochastic optimal growth model
- Lucas Tree model
- Equity Premium Puzzle
Readings

Ljungqvist and Sargent, Chapters 7 (review) and 10
Sargent, Chapters 1 and 3
Stokey and Lucas, Chapters 2-4 and 10


3. Heterogeneous Agents in the Growth Model

Wealth distribution in the optimal growth model
Idiosyncratic uncertainty
Aggregate uncertainty

Readings

Ljungqvist and Sargent, Chapters 13 -14


4. Externalities and Endogenous Growth

Review of empirical growth evidence
Human capital models
Research and development models

Readings

Ljungqvist and Sargent, Chapter 11


5. Models of Structural Change

Review of empirical evidence
Models of structural change
Structural change and balanced growth

Readings


