



APPLIES TO ACADEMIC YEAR 2008/2009

DRE 4007 Macroeconomics

Program

Responsible for the course

Erling Steigum

Department

Department of Economics

Term

According to study plan

ECTS Credits

6

Language of instruction

English

Lecturers:

Professor Erling Steigum (ES). Department of Economics (Part I)

Professor Kai Leitemo (KL). Department of Economics (Part II)

Lecture time (3 hours):

Thursdays (First lecture: January 29th 2009. No lecture March 12, no lecture March 19th)

Duration: 30 participation hours

Objective

Learning outcome

The students should be able to apply optimal control theory on intertemporal resource allocation problems of consumption, investment and economic growth. They should master the q-theory of investment, the optimal growth model (The Ramsey-Cass-Koopmans model), overlapping generations models for closed and open economies (of the Diamond type), and be able to analyze the real effects of government debt and pay-as-you-go pension programmes and other fiscal policy issues. They should also possess a good knowledge of the literature on empirical studies on the world income distributions and the fundamental causes of economic prosperity.

After completing the second part of the course, the student should have a good knowledge of the modern mainstream macro theory models used for business cycle analysis. They should be able to understand how sticky prices (and wages) produce inefficient deviations from the optimal allocation of resources and how a good monetary policy design can improve efficiency. The students should be able to derive the models based on optimizing behavior by the private sector where expectations are fully rational.

Prerequisites

Admission to a PhD Programme is a general requirement for participation in PhD courses at BI Norwegian School of Management.

External candidates are kindly asked to attach confirmation of admission to a PhD programme when signing up for a course with the doctoral administration. Candidates can be allowed to sit in on courses by approval of the courseleader. Sitting in on courses does not permit registration for courses, handing in exams or gaining credits for the course. Course certificates or conformation letters will not be issued for sitting in on courses

Compulsory literature

Recommended literature

Course outline

Part 1: Long-run economic growth and fiscal policy (ES)

List of topics:

Consumption and investment
Optimal resource allocation over time: The Ramsey-Cass-Koopmans model
Overlapping generations models of closed and open economies: Effects of public debt and pay-as-you-go pension systems.
Fiscal policy, intergenerational risk sharing
Endogenous growth theory, the role of social infrastructure/institutions.

Articles (part I)

Acemoglu, Daron, Johnson, Simon, and Robinson, James (2001), "The Colonial Origins of Comparative Development: An Empirical Investigation", *American Economic Review* 91, pp. 1369-1401.
Jones, Charles I. (1995), "R&D-based Models of Economic Growth", *Journal of Political Economy* 103, pp. 759-784.
Jones, Charles I. (2002), "Sources of U.S. Economic Growth in a World of Ideas," *American Economic Review* 92, pp. 220-239.
Jones, Charles I. (2005), "Growth and Ideas", in Aghion, P. and S. Durlauf (eds.) *Handbook of Economic Growth*, Volume 1 (Part 2), Elsevier, pp. 1063-1111.
Persson, Torsten (1985), "Deficits and intergenerational welfare in open economies", *Journal of International Economics* 19, 1985, 67-84.
Gordon, R.H. and H. Varian, "Intergenerational risk sharing", *Journal of Public Economics* 37, 1988, 185-202.
Sala-i-Martin, X. (2005), "The World Distribution of Income: Falling Poverty..." *Quarterly Journal of Economics* 121, pp. 351-397.
Summers, R. and A. Heston, "The Penn World Table (Mark 5): An Extended Set of International comparisons, 1950-1988, *Quarterly Journal of Economics* 106, pp. 327-368.
(Recent update: <http://pwt.econ.upenn.edu>)
Thøgersen, Øystein, "A note on intergenerational risk sharing and the design of pay-as-you-go pension programs," *Journal of Population Economics* 11, 1998, 373-378.
Rodrik, Dani, Subramanian, Arvind, and Trebbi, Francesco (2004), "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development", *Journal of Economic Growth* 9, pp. 131-166.

Part 2: Monetary Policy, Inflation and the Business Cycle (KL)

List of topics:

Introduction and the standard monetary model.
The Basic New Keynesian Model.
Monetary policy design and trade-offs under discretion and commitment.
A model with Sticky Wages and Prices.
Monetary policy and the Open Economy.

Articles (Part II):

Clarida, Gali and Gertler (1999), The Science of Monetary Policy, *Journal of Economic Literature* 37 (4), pp. 1661-1707.

Computer-based tools

Not applicable

Course structure

Course structure and grading
There will be 10 lectures, 5 lectures on each part. Students are required to participate in class – both in discussions and by presenting models/material from the reading lists – as well as solve and hand in solutions to exercises and problems.

Evaluation

The final grade is pass/fail. 30 hours home exam.

Evaluation code(s)

DRE 40071

Aids at the examination

Makeup exam

Nest time the course os offered

Honour Code

Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honour code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honour code system, to which

the faculty are also deeply committed.

Any violation of the honour code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academic integrity. If you have any questions about your responsibilities under the honour code, please ask.