

Advanced Macroeconomics
Part II
PhD in Economics
Universidade de Lisboa, ISEG

Paulo Brito
pbrito@iseg.ulisboa.pt

30.10.2023

Main options of the course

- The main goal of this part of the course is to present some core models of the dynamic general equilibrium approach to macroeconomics. Most (if not all) the course will feature continuous time models.
- I will follow an analytical and heuristic approach: emphasise the characterisation of the dynamic properties of the solutions of the models with a view to understand their assumptions and conclusions.
- I will supply two kinds of study material: lecture notes and problem sets for each topic.
- Disclaimer: the questions and problems in the problem sets are suggestions for self study. I am available to discuss their solutions but **I make no commitment to hand out their solutions**. As a PhD course I assume that students are able and willing to conduct independent research working out the literature (referenced in this course or not).

Assumed background

- Ideally: mathematics and economic theory at the level taught in the Masters in Economics, Monetary and Financial Economics at ISEG.
- At least: calculus, algebra, classical optimisation and probability theory, at an intermediate level.

Assessment

Please see the syllabus handed out by Pro. Bernardino Adão.

Sessions

Tentative scheduling of sessions:

session #	date	time	lecturer	topic
8	31/10/2023	18:00 - 20:00	Paulo Brito	Dynamic household behavior
9	07/11/2023	18:00 - 20:00	Paulo Brito	Quizz. Dynamic household behavior (cont.)
10	14/11/2023	18:00 - 20:00	Paulo Brito	Ramsey and DGE models
11	21/11/2023	18:00 - 20:00	Paulo Brito	Quizz. New-Keynesian models
12	28/11/2023	18:00 - 20:00	Paulo Brito	Optimal taxation
13	05/12/2023	18:00 - 20:00	Paulo Brito	Quizz. Asset pricing and financial frictions

Part 2: Instructor Paulo Brito

Bibliography

General textbooks covering some of the topics and with similar mathematical requirements of the ones which will be lectured:

- Alogoskoufis, G. (2019). *Dynamic Macroeconomics*. MIT Press
- Blanchard, O. and Fischer, S. (1989). *Lectures in Macroeconomics*. MIT Press
- Heijdra, B. J. (2009). *Foundations of Modern Macroeconomics*. Oxford University Press, 2 edition
- Romer, D. (2012). *Advanced Macroeconomics*. McGraw-Hill, 5th edition
- Wickens, M. (2008). *Macroeconomic Theory. A Dynamic General Equilibrium Approach*. Princeton University Press
- My notes in the Advanced Mathematical Economics course.
- Please see the references in my classnotes.

Other advanced textbooks in macroeconomics, with a different emphasis or of a more advanced level

- Growth: Acemoglu, D. (2009). *Introduction to Modern Economic Growth*. Princeton University Press
- Recursive macroeconomics: Ljungqvist, L. and Sargent, T. J. (2018). *Recursive Macroeconomic Theory*. MIT Press, Cambridge and London, 4th edition, Miao, J. (2020). *Economic Dynamics in Discrete Time*. MIT Press, 2nd edition

- Open economy macroeconomics Uribe, M. and Schmitt-Grohé, S. (2017). *Open Economy Macroeconomics*. Princeton University Press
- Macroeconomics and money: Woodford, M. (2003). *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton University Press, Walsh, C. E. (2017). *Monetary Theory and Policy*. Mit Press, 4th edition

Lectures

The dynamic household problem

1. Intertemporal preferences.
2. The household problem: several versions.
3. The household problem: extensions.
4. Intertemporaly-dependent preferences (habit formation).
5. Endogenous labor supply .

References:

- my lecture note
- (Alogoskoufis, 2019, ch 5)
- (Heijdra, 2009, ch 16)

The Ramsey and benchmark DGE models

1. The Ramsey model.
2. The simplest DGE/RBC model.
3. Fiscal policy in the DGE model
4. The simplest DGE model with endogenous labour supply.

References:

- my lecture note
- (Alogoskoufis, 2019, ch 4)
- (Romer, 2012, ch. 4)
- (Heijdra, 2009, ch 14)

New-Keynesian macroeconomics

1. DGE models with monopolistic competition and exogenous markups
2. DGE models with Cournotian monopolistic competition and exogenous markups
3. Externalities and indeterminacy: the Benhabib-Farmer model

References:

- my lecture note,
- (Alogoskoufis, 2019, ch 16),
- Benhabib, J. and Farmer, R. (1994). Indeterminacy and increasing returns. *Journal of Economic Theory*, 63:19–41

Optimal fiscal policy

1. Optimal allocation: capital taxation (the Chamley-Judd model)
2. Optimal allocation: capital and labour taxes
3. Optimal distribution: taxation with complete information
4. Optimal distribution: tax policy with information frictions (the Mirrlees model)

References:

- my lecture note,
- Chamley, C. P. (1986). Optimal taxation of capital income in general equilibrium with infinite lives. *Econometrica*, 54(3):607–22,
- Judd, K. L. (1985). Redistributive taxation in a simple perfect foresight model. *Journal of Public Economics*, 28,
- Lansing, K. J. (1999). Optimal redistributive capital taxation in a neoclassical growth model. *Journal of Public Economics*, 73,
- Diamond, P. A. (1998). Optimal income taxation: An example with a U-shaped pattern of optimal marginal tax rates. *The American Economic Review*, 88(1):83–95,
- Farhi, E. and Werning, I. (2013). Insurance and taxation over the life cycle. *Review of Economic Studies*, 80:596–635,
- Tuomala, M. (2016). *Optimal Redistributive Taxation*. Oxford University Press, 1 edition, chap: 4,
- Mirrlees, J. A. (1971). An exploration in the theory of optimum income taxation. *Review of Economic Studies*, 38:175–208,
- Saez, E. (2001). Using elasticities to derive optimal income tax rates. *Review of Economic Studies*, 68:205–229

Asset pricing and macroeconomic dynamics

1. my lecture note,
2. Asset pricing in frictionless economies,
3. Frictions 1: heterogenous market participation,
4. Friction 2: technological illiquidity,

References:

- Basak, S. and Cuoco, D. (1998). An equilibrium model with restricted stock market participation. *Review of Financial Studies*, 11(2):309–341,
- Brunnermeier, M. K. and Sannikov, Y. (2014). A macroeconomic model with a financial sector. *American Economic Review*, 104:379–421,
- Brunnermeier, M. K. and Sannikov, Y. (2016). Macro, Money and Finance: A Continuous Time Approach. NBER Working Papers 22343, National Bureau of Economic Research, Inc,
- Brunnermeier, M. K., Eisenbach, T., and Sannikov, Y. (2013). Macroeconomics with financial frictions: A survey. In *Advances in Economics and Econometrics, Tenth World Congress of the Econometric Society*. Cambridge University Press, New York,
- Kiyotaki, N. and Moore, J. (1997). Credit cycles. *Journal of Political Economy*, 105:211–48