MACROECONOMICS III
2013-2014
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Syllabus

1. General Information.

Lectures:
Classes:
Office hours:

2. Goals.

The objective of the course is to introduce the students to the advance study of macroeconomics, building on the notions covered in *Macroeconomics I* and *Macroeconomics II*. The first part of the course introduces three types of frictions in a standard Real Business Cycle model: nominal rigidities (New-Keynesian model); search and matching frictions (Diamond-Mortensen-Pissarides model) and financial frictions (financial accelerator model).

The second part of the course focuses on Fiscal policy and some ongoing debates. We will look at the effects of government spending and taxation and the interaction between fiscal and monetary policy. We will also examine optimal policy under complete and incomplete markets and the problem of time inconsistency.

The broader objective of the course is to give the students to a number of technical skills that are going to be fundamental for a successful PhD. We will use Matlab and Dynare to solve the dynamic stochastic general equilibrium models, STATA or Eviews for some empirical applications and Latex for the preparation of assignments and presentations.

3. Textbooks.

4. Detailed course outline.

1. Introduction
   a. Syllabus
   b. Objectives and Methodology

2. Money and Monetary policy
   a. Empirical evidence
   b. Introducing money
      i. Money-in-utility
      ii. Cash-in-advance approach
   c. Do we really need money? The New-Keynesian model
      i. New-Keynesian Phillips curve
      ii. Indeterminacy and the Taylor principle
   d. Some basic extensions

3. Labour market
   a. Why do we have unemployment?
   b. Pissarides search and matching model
   c. Efficiency and the Hosios condition
   d. Worker flows
   e. Shimer’s puzzle and possible solutions

4. Financial frictions
   a. Collateral constraints
   b. Bernanke-Gertler-Gilchrist and the Financial accelerator model

5. Fiscal policy – Positive analysis
   a. Ricardian equivalence
   b. Effects of government spending in theory and in the data
   c. Monetary-fiscal policy interactions
      i. Fiscal dominance
      ii. Fiscal theory of price level

6. Fiscal policy – Normative analysis
   a. Fiscal policy over the business cycle
      i. Barro’s tax smoothing
      ii. Optimal policy under complete markets
      iii. Optimal policy under incomplete markets
   b. Capital versus labour income taxes
   c. Commitment and time inconsistency
5. Bibliography

- **Introduction**

- **Dynamic programming and the solution to dynamic expectation models**
  - (*) Ljungqvist and Sargent, Chapters 2, 3 and 4.
  - Stokey and Lucas, Chapters 2 and 4.

- **Money and Monetary policy**

• **Labour market**

• **Financial frictions**
**Fiscal policy – Positive analysis**

**Fiscal policy – Normative analysis**