

Economics 522: Macroeconomic Theory II — Fall 2006

Instructor: Ed Green, eug2@psu.edu, 415 Kern

Requirements: Midterm exam, final exam, and assignments.

Syllabus

1. Competitive equilibrium and efficiency in economies with infinitely many goods
 - (a) Necessary and sufficient conditions for optimality
Martin L. Weitzman. Duality theory for infinite horizon convex models. *Management Science*, 19(7):783–89, March 1973.
 - (b) Valuation equilibrium and Pareto optimum
Gerard Debreu. Valuation equilibrium and Pareto optimality. *Proceedings of the National Academy of Sciences of the United States of America*, 40(7):588–92, July 1954.
 - (c) Inner-product representation of prices
Edward C. Prescott and Robert E. Lucas Jr. A note on price systems in infinite dimensional space. *International Economic Review*, 13(2):416–22, June 1972.
 - (d) Applications to growth and asset pricing
Larry E. Jones and Rodolfo E. Manuelli. A convex model of equilibrium growth: Theory and policy implications. *Journal of Political Economy*, 98(5):1008–38, October 1990. Part 1.
Robert E. Lucas Jr. and Edward C. Prescott. Investment under uncertainty. *Econometrica*, 39(5):659–81, September 1971.
Lars Peter Hansen and Ravi Jagannathan. Implications of security market data for models of dynamic economies. *Journal of Political Economy*, 99(2):225–62, April 1991.
2. Departures from complete markets and perfect competition
 - (a) Sharing diosyncratic risk by monetary trade
Truman Bewley. The optimum quantity of money. In John Kareken and Neil Wallace, editors, *Models of Monetary Economies*, pages 169–210. Federal Reserve Bank of Minneapolis, Minneapolis, 1980.
Truman Bewley. A difficulty with the optimum quantity of money. *Econometrica*, 51(5):1485–504, September 1983.
Edward J. Green and Ruilin Zhou. Money as a mechanism in a Bewley economy. *International Economic Review*, 46(2):351–71, May 2005.
 - (b) Decentralized trade (worker-firm matching)
Dale T. Mortensen. Equilibrium employment dynamics. *International Economic Review*, 40(4):889–914, November 1999.

(c) Monopolistic competition

Avinash K. Dixit and Joseph E. Stiglitz. Monopolistic competition and optimum product diversity. *American Economic Review*, 67(3):297–308, June 1977.

John B. Taylor. Aggregate dynamics and staggered contracts. *Journal of Political Economy*, 88(1):1–23, February 1980.

3. Infinite-horizon principal-agent models

(a) Infinitely repeated games

Dilip Abreu. On the theory of infinitely repeated games with discounting. *Econometrica*, 56(2):383–96, March 1988.

i. Government policy with and without commitment

V. V. Chari and Patrick J. Kehoe. Sustainable plans. *Journal of Political Economy*, 98(4):783–802, August 1990.

ii. Endogenous borrowing constraints

Timothy J. Kehoe and David K. Levine. Debt-constrained asset markets. *Review of Economic Studies*, 60(4):865–88, October 1993.

(b) Private information and the revelation principle

Roger B. Myerson. Incentive compatibility and the bargaining problem. *Econometrica*, 47(1):61–73, January 1979.

i. Risk sharing with private information

Edward J. Green. Lending and the smoothing of uninsurable income. In Edward C. Prescott and Neil Wallace, editors, *Contractual arrangements for intertemporal trade*, number 1 in Minnesota Studies in Macroeconomics series, pages 3–25. University of Minnesota Press, Minneapolis, 1987.

Jonathan Thomas and Tim Worrall. Income fluctuation and asymmetric information: An example of a repeated principal-agent problem. *Journal of Economic Theory*, 51(2):367–90, August 1990.

Academic Integrity

Students must observe the CLA policy regarding academic integrity, which also specifies the procedure to be followed when a student is charged with violating the policy. The student resource web page for this policy is <http://www.la.psu.edu/undergrad/integrity/studentpolicy/studentres.htm>.

Valid Excuses for Absence

During the course, many possible situations may arise that would result in your inability to attend class, attend exams, or perform at a minimally acceptable level during an examination. Illness or injury, family emergencies, certain University-approved curricular and extra-curricular activities, and religious holidays can be legitimate reasons to miss class or to be excused from a scheduled examination.

The Economics Department policy regarding absence, including the student's responsibility to document an excuse, is found at <http://www.econ.psu.edu/undergraduate/index.html#valid>.

Disability Access

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