Reading Guide for Midterm 1.

Disclaimer: I do not guarantee that I will only ask about things mentioned here. This is just a short guide that might help you set priorities. The exact syllabus is everything that was said in class.

Advice: Make sure to focus on the "logic" of the models and not just how to solve them (think about WHY we would consider each model). If you understand the point of a model and what was said in class, you should not worry about whether you understand Romer's discussion. It is not always clear.

We have covered:

The Keynesian IS/LM model, the AS/AD model, the Phillips curve, and the expectation augmented Phillips curve. You need to be able explain how the AD curve is derived from the IS/LM model and how an AS curve (with various slopes) may come about. This material is in Romer Chapter 5. We didn't do Ch. 5.2 (open economy) or Ch. 5.5.

We covered, in all details the model of perfect information in 6.1 followed by the Lucas Imperfect Information mode in 6.2 and its implications in 6.3. Know this model in all detail. While it is not so influential any more as a guide to macroeconomic policy, it is likely the most influential paper since Keynes in terms of methodology (rational expectations, dynamic specification).

The model of imperfect competition in Section 6.4 is also very important. The exact form of the model may not be used other places (it is chosen more or less as the simplest possible) but similar models are still used a lot. You should start with homework 6.2, in which the price index is derived rigorously. (Such utility functions are used in many papers—typically with the z terms and often as sum instead of an integral— if you have trouble with the integral think about it as a sum.)

Staggered Price Adjustment. Fischer's version in Chapter 6.5. Understand the point that Fischer was making (that rational expectations *by themselves* do not imply that anticipated monetary policy has no effect.)

The idea of menu costs in Chapter 6.8. (Figure 6.3 in Romer or the even simpler version I did in class—from Mankiw 1985.) The quantitative examples pp. 603–310 (in particular, the logic of it: that small menu costs are not enough to create major price stickiness if labor markets are competitive with a low elasticity of labor supply).

Time series tools: Lag-operators. Handout—first 3 pages. (Lag-operators are treated mentioned

in Romer p. 293–294 if you want another simple source, but if you understand the handout there is nothing new there.)