

ECON 8344—Macroeconomic Theory III

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WEB-page: to come (the class WEB-page will be accessible from my home-page: www.uh.edu/~bsorensen)

Hours: By appointment, and just drop by.

Course Description

Readings:

Textbooks: Romer [R]: Advanced Macroeconomics, 3rd edition, McGraw Hill 2006;

Obstfeld and Rogoff [OR]: Foundations of International Macroeconomics, MIT 1996.

I will focus on subjects of empirical relevance (this reflects my own research and the also reflects the general strength of the department).

I plan to start with the last two chapters of R. Chapter 10 is about monetary policy but idea, developed in this chapter, that agents may take into account how their actions affect the expectations of other agents and thereby change future trade-offs, is very important and not limited to monetary policy.

Romer's chapter 11 is about fiscal policy. Here the new idea is that agents may interact strategically (an application of game theory). This is for sure not limited to theories about fiscal policy, for example "most" of corporate finance builds on such ideas.

The material in Romer's chapter 11 is part of "political economy" broadly speaking. If such has your interest you should consult Drazen: Political Economy in Macroeconomics. Princeton University Press 2000.

I expect to cover chapters 6, 9, and 10 of Obstfeld-Rogoff. OR's chapter 6 treats the trade-offs that occur when contracts can not be (fully) enforced. This is particularly relevant in international finance (the setting of OR) but the same ideas appears "all over the place" so you should take this very seriously even if you are not planning to do international.

The same with chapter 10. This is an example of an optimizing model with neo-classical and Keynesian features (utility optimization and sticky prices, respectively). The model derivation itself is somewhat tedious but you should make the effort to get a feel for this large area of modern macroeconomics.

Computer Work: I encourage you to do some small empirical project for your presentation although it is not a requirement. Not quite a research project, but maybe a simple replication of existing work. I can provide the programs for everything I have worked on in GAUSS and GAUSS code for many other projects can be found on the net. (I had the department acquire the COINT add-on module for GAUSS, this module has pre-programmed most unit-root and co-integration procedures.)

General advice: Mainly for those of you who just passed the core. After the core the tests are mainly a service for you to check yourself and not so much for any other purpose. The upshot is that there will be less pressure on you from exams and you will have to motivate yourself more (I am not going to police how much effort you put into the work). The simple fact is that if you want a decent academic job you have to work more or less all the time including breaks and even for non-academic ph.d. level jobs the competition is absolutely fierce so take your course-work seriously while at the

same time thinking every day about which direction you want to take for your thesis. Even if you have only a vague idea of what you want to do for your thesis you should approach me or other professors and discuss your ideas as soon as possible.