**ECON 602**

**MACROECONOMIC THEORY I**

**Department of Economics**

**University of Waterloo**

**Fall 2016**

**Meetings**

**Lecture time:** Monday and Wednesday 11:30AM-12:50PM  
**Lecture location:** HH 334

**Instructor information**

**Instructor:** Francisco M. Gonzalez

**Office:** Hagey Hall 130  
**Office hours:** Thursday 14:00-15:30  
**E-mail:** francisco.gonzalez@uwaterloo.ca

**Course description**

This course offers an introductory analysis of the macro-economy. It is the first one of the two courses in the graduate core macroeconomics sequence offered by the Economics Department at the University of Waterloo.

**Evaluation**

Student performance will be evaluated through a collection of assignments and three midterm exams, with the following weights:

Assignments: 20%  
Midterm exam #1: 30%

Midterm exam #2: 25%

Midterm exam #3: 25%

Students are expected to work in groups (about 3 students per group) on all assignments. Detailed information about assignments will be provided in class. The midterm exams will be held on October 14, October 31 and December 5, respectively, and they will take place in the class period and the room classes are held. Students are expected to write their midterm exams on the scheduled date. If a student misses a midterm exam and there are extenuating circumstances, a make-up test will be scheduled during the final examination period.

**Course outline**

The course is organized into four parts. The first part focuses on intertemporal choice problems. The second part considers the principles of dynamic general equilibrium theory that underlie modern economic analyses of the macro-economy. The third part focuses on equilibrium models of the labor market. The fourth part focuses on the macroeconomic implications of credit frictions.

**Part 1. Intertemporal choice**

This part examines the logic of intertemporal choice problems and its importance for understanding the functioning of the macro-economy.

Hall, Robert E. (1978): "Stochastic implications of the life cycle-permanent income hypothesis: Theory and Evidence", Journal of Political Economy (December), 971-987.

Barro, Robert (1974): "Are government bonds net wealth?", Journal of Political Economy (November/December), 1095-1117.

Lucas, Robert E. (1976): "Econometric policy evaluation: a critique", Carnegie-Rochester Conference Series on Public Policy 1, 19-46.

**Part 2. Dynamic general equilibrium**

We begin with an introduction to dynamic general equilibrium models. We will focus on equilibrium market clearing models without trading frictions. The main objective is to understand the concept of general equilibrium in the context of the simplest models of a macro-economy.

Bliss, Christopher (1975): Capital Theory and the Distribution of Income, (chapter 3).

Mas-Colell, Andreu, Michael D. Whinston and Jerry R. Green (1995): Microeconomic Theory, Oxford University Press, (chapters 15-17, 19-20).

**Part 3. Labor markets**

This part examines the basic structure of equilibrium models with search and matching frictions and why these models are useful in macroeconomic analyses of the labor market.

Pissarides, Christopher A. (2000): Equilibrium Unemployment Theory, second edition, Cambridge: MIT Press (chapters 1 and 2).

Rogerson, Richard, Robert Shimer and Randall Wright (2005): "Search-theoretic models of the labor market: a survey", Journal of Economic Literature (December), 959-988.

Rogerson, Richard and Robert Shimer (2010): "Search in macroeconomic models of the labor market", Handbook of Labor Economics, volume 4A, pages 619-700.

**Part 4. Credit frictions**

This part considers some implications of credit frictions for the macro-economy.

Diamond, Douglas W. and Philip H. Dybvig (1983): "Bank runs, liquidity, and deposit insurance", Journal of Political Economy (June), 401-419.

Kiyotaki, Nobuhiro and John Moore (1997): "Credit cycles", Journal of Political Economy (April), 211-248.

**Weekly schedule**

1. Sept 12, Sept. 14: introduction  
2. Sept. 19, Sept 21: intertemporal choice under certainty  
3. Sept. 26 Sept. 28: intertemporal choice under uncertainty

4. Oct. 3, Oct. 5: dynamic general equilibrium  
5. Oct. 10, Oct. 12, Oct. 14:

Oct. 10: THANKSGIVING DAY

Oct. 12: STUDY DAY

Oct. 14: MIDTERM EXAM #1 (WEDNESDAY SCHEDULE)

6. Oct. 17, Oct. 19: economic growth

7. Oct. 24, Oct. 26: labor market data

8. Oct. 31, Nov. 2:

Oct. 31: MIDTERM EXAM #2

Nov. 2: search frictions

9. Nov. 7, Nov. 9: macroeconomic models of the labor market

10. Nov. 14, Nov. 16: unemployment

11. Nov. 21, Nov. 23: inequality

12. Nov. 28, Nov. 30: credit frictions

13. Dec. 5: MIDTERM EXAM #3

**Statements and links to be included on all course outlines:**

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### Economics Department Deferred Final Exam Policy

Deferred Final Exam Policy found at <https://uwaterloo.ca/economics/current-undergraduates/policies-and-resources/deferred-final-exam-policy>.

### Cross-listed course

Please note that a cross-listed course will count in all respective averages no matter under which rubric it has been taken. For example, a PHIL/PSCI cross-list will count in a Philosophy major average, even if the course was taken under the Political Science rubric.

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### Academic Integrity

***Academic Integrity:*** In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility.

***Discipline:*** A student is expected to know what constitutes academic integrity, to avoid committing academic offences, and to take responsibility for his/her actions. A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating) or about “rules” for group work/collaboration should seek guidance from the course professor, academic advisor, or the Undergraduate Associate Dean. When misconduct has been found to have occurred, disciplinary penalties will be imposed under Policy 71 – Student Discipline. For information on categories of offenses and types of penalties, students should refer to [Policy 71 - Student Discipline](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-71) (https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-71)

***Grievance:*** A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read [Policy 70 - Student Petitions and Grievances](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-70) (https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-70), Section 4.

***Appeals:*** A student may appeal the finding and/or penalty in a decision made under Policy 70 - Student Petitions and Grievances (other than regarding a petition) or Policy 71 - Student Discipline if a ground for an appeal can be established. Read [Policy 72 - Student Appeals](https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-72) (https://uwaterloo.ca/secretariat-general-counsel/policies-procedures-guidelines/policy-72).

***Other sources of information for students:***

[Academic Integrity website (Arts)](https://uwaterloo.ca/arts/current-undergraduates/student-support/ethical-behaviour)

https://uwaterloo.ca/arts/current-undergraduates/student-support/ethical-behaviour   
[Academic Integrity Office (UWaterloo)](https://uwaterloo.ca/academic-integrity/)

https://uwaterloo.ca/academic-integrity/

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### Accommodation for Students with Disabilities

***Note for students with disabilities:*** The [AccessAbility Services](https://uwaterloo.ca/disability-services/) office (https://uwaterloo.ca/disability-services), located on the first floor of the Needles Hall extension (NH 1401), collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with the AS office at the beginning of each academic term.

### If you are using Turnitin in your course

***Turnitin.com:*** Text matching software (Turnitin®) will be used to screen assignments in this course. This is being done to verify that use of all material and sources in assignments is documented. In the first week of the term, details will be provided about the arrangements for the use of Turnitin® in this course.

(Note: students must be given a reasonable option if they do not want to have their assignment screened by Turnitin ®. See [guidelines for instructors](https://uwaterloo.ca/academic-integrity/guidelines-instructors) for more information.)