

Stanford University
Department of Economics
Spring Quarter, 2004

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Syllabus: Economics 212 (Second Half, 8th Module)

This module of Economics 212 covers basic building-block subjects in aggregate applied economics: consumption, investment, and the labor market. Economics 202, 203, 210 and 211 are strict prerequisites. Although the course is open to all students at Stanford who satisfy the prerequisites, it will be taught strictly at the level suited to the department's PhD program.

Readings listed with a * will be discussed in detail in the lectures and are essential for preparation for the course. Please read them in advance of the lecture.

The textbook is David Romer, *Advanced Macroeconomics*, New York: McGraw-Hill, second edition, 2001.

Economics PhD students will be taking the macro comp on June 11, which will determine their grades in this course. Other students will take the final exam on June 8 at 8:30 am.

There will be weekly problem sets. For students other than economics PhDs, the grade will be based 30 percent on the problem sets and 70 percent on the final.

The class will meet Monday and Wednesday in Economics 140 from 1:15 to 3:05, with a break. The section will meet from 10 to 12 on Fridays in Economics 140.

Class materials will be available from <https://coursework-g.stanford.edu>.

Course schedule:

	Monday		Wednesday		Friday
		4/28	Lecture: Consumption	4/30	Section: Consumption
5/3	Lecture: Consumption PS1 (Consumption) passed out, due in class 5/10	5/5	Lecture: Investment ;	5/7	Section: Investment
5/10	Lecture: Investment PS1 due in class, PS2 (Investment) handed out	5/12	Lecture: Labor market;	5/14	Section: Labor market
5/17	Lecture: Labor market PS2 due in class; PS3 (Labor market) handed out	5/19	Lecture: Labor market	5/21	Section: Labor market
5/24	PS3 due in Adam's office by 5 pm				

Problem sets

You are allowed and encouraged to work in groups, but you are required to turn in your own write-up, prepared individually. If anything in the assignment is unclear or you are completely stuck, you can ask Adam questions by email or during office hours. His answers will try to provide you with the right amount of help to resume your learning process. He won't give away solutions. He will stop answering questions on a given assignment 24 hours before it is due. This will encourage you to start in time. Also, there will be no option value to waiting for late tips. Late homework will be graded, but you lose 1/3 of the available points per day that you are late.

Students with documented disabilities:

Students who have a physical or mental impairment that may necessitate an academic accommodation or the use of auxiliary aids and services in a class **must initiate the request with the Disability Resource Center (DRC)**. The DRC will evaluate the request along with the required documentation, recommend appropriate accommodations,

and prepare a verification letter dated in the current academic term in which the request is being made. Please contact the DRC as soon as possible; timely notice is needed to arrange for appropriate accommodations. The DRC is located at 123 Meyer Library (phone 723-1066 Voice; 725-1067 TTY).

Consumption

*Romer, Chapter 7: "Consumption"

*Hall, R. E. "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence." *Journal of Political Economy*, 86, 971-987, 1978 (JSTOR).

*Ricardo Caballero, "Earnings Uncertainty and Aggregate Wealth Accumulation," *American Economic Review* 81-859-871, Sept. 1991(JSTOR).

*Hall, R., "Intertemporal Substitution in Consumption" *Journal of Political Economy*, 96, 339-357, April 1988. (JSTOR)

Attanasio, Orazio "Consumption," *Handbook of Macroeconomics*, vol. 1B, Chapter 11, pp. 741-812

Deaton, Angus, *Understanding Consumption*, Clarendon Lectures in Economics, Oxford: Clarendon Press, 1992

Ando, A. and F. Modigliani, "The Life Cycle Hypothesis of Saving: Aggregate Implications and Tests," *American Economic Review*, March 1963, pp. 55-84.

Abel, Andrew, "Consumption and Investment," Chapter 14 in Benjamin Friedman and Frank Hahn (eds.) *Handbook of Monetary Economics*, North-Holland, 1990.

Hall, R.E., "Consumption," Chapter 4 in Robert Barro (ed.) *Modern Business Cycle Theory*, Harvard University Press, 1989.

Flavin, M. "The Adjustment of Consumption to Changing Expectations about Future Income," *Journal of Political Economy*, 89, 974-1009, 1981.

Hubbard, Glenn, Jonathan Skinner, and Stephen Zeldes, "The Importance of Precautionary Motives in Explaining Individual and Aggregate Saving," *Carnegie-Rochester Series on Public Policy*, 40: 59-125, 1994

Investment

*Romer, Chapter 8: "Investment"

*Hall, Robert E. and Dale W. Jorgenson, "Tax Policy and Investment Behavior," *American Economic Review*, 57, 391-414, 1967 (JSTOR).

*Abel, Andrew, "Consumption and Investment," Chapter 14 in Benjamin Friedman and Frank Hahn (eds.) *Handbook of Monetary Economics*, North-Holland, 1990.

*Caballero, Ricardo J. "Aggregate Investment," *Handbook of Macroeconomics*, vol. 1B, Chapter 12, pp. 813-862

Ramey, Valerie A., and Kenneth D. West, "Inventories," *Handbook of Macroeconomics*, vol. 1B, Chapter 13, pp. 863-926

Caballero, Ricardo J., Eduardo M.R.A. Engel, and John C. Haltiwanger, "Plant Level Adjustment and Aggregate Investment Dynamics," *Brookings Papers on Economic Activity*, 2:1995

Bernanke, Ben S., "Irreversibility, Uncertainty, and Cyclical Investment," *Quarterly Journal of Economics*, 98, 85-106, 1983.

Ramey, Valerie, "Inventories as Factors of Production and Economic Fluctuations," *American Economic Review*, June 1989, pp. 338-354

Dixit, Avinash, and Robert Pindyck, *Investment under Uncertainty*, 1994

The Labor Market

*Robert E. Hall, "Macroeconomic Fluctuations and the Allocation of Time," *Journal of Labor Economics*. vol. 15, pp. S223-S250, January 1997 (JSTOR).

*Hall, Robert E. "Labor-Market Frictions and Employment Fluctuations" *Handbook of Macroeconomics*, vol. 1B, Chapter 17, pp. 1137-1170,
<http://www.stanford.edu/~rehall/CV.htm>

*Robert Shimer, "The Cyclical Behavior of Equilibrium Unemployment and Vacancies"
<http://home.uchicago.edu/~shimer/wp/>

*Romer, Chapter 9, "Unemployment"

Mortensen, Dale T., and Christopher A. Pissarides, "Job Reallocation, Employment Fluctuations, and Unemployment," *Handbook of Macroeconomics*, vol. 1B, Chapter 18, pp. 1171-1228