

ECON 509

General Macroeconomic Theory
Department of Economics • UIUC

Semester offered: Spring 2006

Instructor: Stephen L. Parente

Objective: This course will expose students to the economic theories that have come to dominate the study of economic growth and the study of business cycles. The course will emphasize the results of macroeconomic research. It will, however, give some attention to the methods use in macroeconomic research.

Course Material: The main reading material is a series of lecture notes that can be downloaded from the website. There are a number of articles that will also be used. These too can be downloaded from the course webpage. There are two undergraduate macro textbooks that you may consult and will at times serve as supplemental reading material. These are:

Williamson, Stephen D. *Macroeconomics* 2nd Edition. Boston: Addison Wesley (2002).

Mankiw, G. *Macroeconomics* 5th Edition. Worth: New York, NY (2003)

The Williamson book can be purchased at the bookstore. The Mankiw book has been placed on reserve at the Business Library. .

Grading Policy

Your course grade will be based on three exams (25 percent each) and numerous problem sets and project (25 percent). A number of the problem sets will require an Excel spreadsheet. In determining your course grade, other factors may be considered such as class participation. The first midterm will follow after Part I of the course is completed. The second midterm will follow after Part II of the course is completed.

**A note to those of you who may want to apply to a Ph.D. economics program and may want a letter of recommendation: a positive letter from me requires a grade of A+ for the course. Additionally, you must demonstrate in class discussion that you have a good understanding of material and strong economic intuition.

Course Home Page: You will be able to find copies of the problem sets, answer keys, links to supplemental material, as well as weekly updates that pertain to the course at the following web site: <https://netfiles.uiuc.edu/parente/Econ509>

Course Outline and Readings

Econ 509

I. Introduction

A. The Science of Macroeconomics –
Parente, S. Chapter 1 Introduction to Quantitative Macroeconomics

B. National Income and Product Accounts –

Prescott, E. C. The National Income and Product Account and Relation to Consumption and Income. (**Download at Web Site**).

C. The Solow Growth Model
Parente, S. Chapter 3 The Solow Model

D. Demonstration of Calibration Method
Parente, S. Chapter 4 Calibration Exercise using Solow Growth Model

- II. The Long Run Performance
 - A. Development and Growth Facts –
Parente, S. Chapter 5.a Development and Growth Notes (**Download at Website**)
 - B. Endogenous vs. Exogenous Growth
Parente, S. Chapter 5.b Notes on Endogenous Growth
 - C. Malthusian Model
Parente, S Chapter 6, The Malthusian Model
 - D. Combined Model: Malthus and Solow
Parente, S. Chapter 7 Malthus to Solow
 - E. Accounting for the Evolution of International Incomes: TFP vs. Savings Rates
Parente, S. Chapter 8 TFP and Starting Dates

- III. Short Run Performance
 - A. Business Cycle Measurement
Williamson Chapter 3
 - B. The Neoclassical Growth Model
Parente, S. Chapter 10 and 11 Neoclassical Growth Model
 - C. Modern Business Cycle Theory
Kydland and Prescott, ["Real Facts and a Monetary Myth"](#)
Prescott, ["Theory Ahead of Business Cycle Measurement"](#)
 - D. Keynesian Business Cycle Theory
 - a. Aggregate Demand – Mankiw Chapters 10 & 11.
 - b. Aggregate Supply – Williamson Chapter 12,
 - c. Inductive Inference and The Lucas Critique -
*Lucas, R.E. and T. Sargent. 1979. ["After Keynesian Macroeconomics"](#). **Download at website**
 - E. Policy
 - a. Rules versus Discretion
Mankiw, Chapter 14
*Chari, V.V. 1988 "Time Consistency and Optimal Policy Design."
(Download at Website)
 - b. Fiscal Policy Evaluation using the Growth Model
Parente S. L. Chapter 12. Fiscal Policy in the Growth
Prescott, E.S. Why do Americans Work More than Europeans?