Advanced Macroeconomics II
China Center for Economic Research
Spring 2007

Syllabus

Instructor:
Prof. Zeng Zhixiong, zxzeng@ccer.pku.edu.cn

Textbook:
• Stokey and Lucas, with Prescott, *Recursive Methods in Economic Dynamics*, Harvard University Press, 1989.
• Ljungqvist and Sargent, *Recursive Macroeconomic Theory*, 2nd edition, The MIT Press, 2004.

Evaluation:
Problem Sets: 10%
Midterm Exam: 40%
Final Exam: 50%

Outline:

Part I. Dynamic Programming and Recursive Equilibrium
1. Math preliminaries
2. Deterministic dynamic programming
3. Stochastic dynamic programming
4. Recursive equilibrium

Part II. Asset Pricing in Contingent Claim Markets
1. Time-0 Arrow-Debreu
2. Recursive formulation: One-period Arrow securities
3. Applications

Part III. Incomplete Markets
1. Idiosyncratic risk
2. Aggregate risk

Part IV. Business Cycles
1. Technology-shocks-driven business cycles: approximation, calibration, and simulation
2. Equilibrium indeterminacy and sunspots
3. Implementation cycles
4. Growth through cycles

Part V. Unemployment
1. Dynamic programming in continuous time
2. Efficiency wages
3. Search and matching

Part VI. Monetary Transmission Mechanisms
1. Liquidity effects
2. Sticky prices

Part VII. Policy
1. Optimal policies with commitment
2. Credible policies