

## **Topics in Macroeconomics: Behavioral Macroeconomics**

**Course Description:** This course will introduce you to some current topics in macroeconomics. The focus will be on recent behavioral approaches to understanding macroeconomic phenomena and the empirical evidence that supports those behavioral approaches. A list of the topics I plan to cover is given on the reading list.

**Requirements:** 1) Attendance and active participation in weekly class meetings. I will announce the topic we will cover in the following week's class and will expect that you have read the papers on the reading list in advance of that class. 2) Presentation/submission of a preliminary research project. Submission of research project *is due on or before the last class meeting Tuesday, April 24, 2007; no late submissions will be accepted.* You may choose to work on a research project by yourself or with another person. A brief oral presentation of the project is also required and will be scheduled for the last two weeks of the semester. Grades for this course will be determined on the basis of both the oral presentation and the project write-up. In the case of group efforts, all members of a group will receive the same grade. You should meet with me to discuss your project by March 2, 2007.

**Readings:** We will read a number of papers for this course. References are given below. Please come prepared to critically discuss the papers assigned for each class meeting.

**Class Schedule** The course meets Tuesdays, 2:30-5:00pm in 4940 W.W. Posvar Hall. A list of topics and readings follows. The list of topics and readings is subject to change.

### 1. Introduction

- Akerlof, G.A. (2002) "Behavioral Macroeconomics and Macroeconomic Behavior," *American Economic Review*, 92. 411–433.
- Barberis, N. and Thaler, R. (2002) "A Survey of Behavioral Finance," NBER working paper 9222.

### 2. Efficiency Wages and Employment

- Akerlof, G.A. (1982), "Labor Contracts as Partial Gift Exchange," *Quarterly Journal of Economics*, 97, p543-69
- Akerlof, G.A. and Yellen, J., (1986), 'Efficiency Wage Models of the Labor Market', Cambridge: Cambridge University Press.

- Akerlof, G.A., and Yellen, J., (1988), “Fairness and Unemployment,” *American Economic Review* 78, 44-49.
- Fehr E., Kirchsteiger G., and Riedl A., (1993), *Quarterly Journal of Economics* 108, 437-460.
- Fehr E., Gächter S., and Kirchsteiger G., (1997) *Econometrica* 65, 833-860.
- Shapiro, C. and Stiglitz, J. (1984), “Equilibrium Unemployment as a Worker Discipline Device,” *American Economic Review* 74, 433-44.

### 3. New Keynesian Phillips Curve

- Taylor, J.B. (1980), “Aggregate Dynamics and Staggered Contracts,” *Journal of Political Economy* 88, 1-24.
- Calvo, G. (1983) “Staggered Prices in a Utility–Maximizing Framework, *Journal of Monetary Economics* 12, 383-98.
- Gali and Gertler (1999), “Inflation Dynamics: A Structural Econometric Model,” *Journal of Monetary Economics* 44, 195-222.
- Ball, L.S., (1994), “Credible Disinflation with Staggered Price-Setting, *American Economic Review* 84, 282-89.
- Mankiw, N.G. (2001), “The Inexorable and Mysterious Tradeoff Between Inflation and Unemployment,” *Economic Journal* 111, C45–61.
- Bils, M. and Klenow, P.J., (2004) “Some Evidence on the Importance of Sticky Prices,” *Journal of Political Economy* 112, 947-85.

### 4. New Keynesian Model

- Clarida, R. Gali, J. and Gertler, M. (1999), “The Science of Monetary Policy: A New Keynesian Perspective,” *Journal of Economic Literature* 37, 1661–1707.
- Walsh, C.E., (2003), *Monetary Theory and Policy* Second edition. Cambridge: MIT Press.

### 5. Monetary Policy Rules

- Taylor, J.B. (1993), “Discretion versus policy rules in practice,” *Carnegie-Rochester Conference Series on Public Policy* 39, 195-214.
- Taylor, J.B. (1999), Ed., *Monetary Policy Rules*, Chicago: University of Chicago Press & NBER.
- Clarida, R. Gali, J. and Gertler, M. (1999), “The Science of Monetary Policy: A New Keynesian Perspective,” *Journal of Economic Literature* 37, 1661–1707.
- Woodford, M. (2003), *Interest and Prices: Foundations of a Theory of Monetary Policy*, Princeton: Princeton University Press.

### 6. Habit/Status Concerns and the Equity Premium Puzzle

- Fuhrer, J. and Moore, G., (1995), “Inflation Persistence,” *Quarterly Journal of Economics* 110,127-59.
- Fuhrer, J. (2000), “Habit Formation in Consumption and its Implications for Monetary Policy Models,” *American Economic Review* 90, 367–390.

- Holden and Driscoll (2003), “Inflation Persistence and Relative Contracting,” *American Economic Review* 93, 1369–1372.

#### 7. Sticky Information and Inattentiveness

- Mankiw, N.G., and Reis, R. (2002) “Sticky Information versus Sticky Prices: A Proposal to Replace the New Keynesian Phillips Curve,” *Quarterly Journal of Economics* 117, 1295-1328.
- Mankiw, N.G. and Reis, R. (2006), “Pervasive Stickiness” NBER Working Paper 12024.
- Reis, R. (2006) “Inattentive Consumers,” *Journal of Monetary Economics* 53, 1761-1800.

#### 8. Money Illusion

- Fisher, I. (1928), *The Money Illusion*, New York: Adelphi
- Shafir, E., Diamond, P.A., and Tversky, A. (1997) “On Money Illusion,” *Quarterly Journal of Economics* 112, 341-74.
- Fehr, E and Tyran, J. R. (2001) “Does Money Illusion Matter?” *American Economic Review* 91, 1239-1262.

#### 9. Adaptive Learning Dynamics

- Sargent, T.J. (1993), *Bounded Rationality in Macroeconomics*, Oxford: Oxford University Press.
- Brock, W.A. and C. Hommes, (1997) “A Rational Route to Randomness,” *Econometrica* 65, 1059-95.
- Evans, G.W. and S. Honkapohja (2001) *Learning and Expectations in Macroeconomics*, Princeton: Princeton University Press.

#### 10. Adaptive Learning and Monetary Policy

- Bullard, J. (2006), “The Learnability Criterion and Monetary Policy,” Federal Reserve Bank of St. Louis *Review* May/June 2006, 203–218.
- Bullard, J. and K. Mitra (2002), “Learning about Monetary Policy Rules,” *Journal of Monetary Economics* 49, 1105-29.
- Evans, G.W. and S. Honkapohja (2003), “Expectations and the Stability Problem for Optimal Monetary Policies,” *Review of Economic Studies* 70, 807-24.

#### 11. Hyperbolic Discounting and Undersaving

- Ainslie, G. and Haslam, N. (1992), “Hyperbolic Discounting,” in Loewenstein, G. and Elster, J., Eds., *Choice Over Time*, New York: Russell Sage, 57-92.
- Laibson, D. (1997) “Golden Eggs and Hyperbolic Discounting,” *Quarterly Journal of Economics*
- O’ Donoghue, T. and M. Rabin (1999), “Procrastination in Preparing for Retirement,” in *Behavioral Dimensions of Retirement Economics*, Brookings Institution Press.
- Rubinstein, A. (2003) “Economics and Psychology? The Case of Hyperbolic Discounting,” *International Economic Review*, 1207-1216.

## 12. Asset price bubbles and volatility

- DeLong, J.B. Shleifer, A., Summers, L.H. and Waldmann, R.J. (1990) “Noise Trader Risk in Financial Markets,” *Journal of Political Economy*
- Leroy, S. (2004), “Rational Exuberance,” *Journal of Economic Literature* 42, 783-804.
- Shiller, R.J. (1981), “Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends? *American Economic Review* 71, 421-36.
- Shiller, R.J. (2000), *Irrational Exuberance*, Princeton: Princeton University Press.
- Allen, F., Morris, S., Shin, H-S. (2003), “Beauty Contests, Bubbles and Iterated Expectations in Asset Markets,” Cowles Foundation Discussion Paper 1406.

## 13. Multiple Equilibria, Speculative Attacks and Policy

- Carlsson, H. and van Damme, E. (1993), “Global Games and Equilibrium Selection,” *Econometrica* 61, 989-1018.
- Morris, S. and Shin, H-S, (1998), “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks Morris” *American Economic Review*, 88, 587-97.
- Morris, S. and Shin, H-S, (2001), “Rethinking Multiple Equilibria in Macroeconomic Modeling,” *NBER Macroeconomics Annual 2000*, Cambridge, MIT Press, 139-61.
- Morris, S. and Shin, H-S (2006), “Catalytic Finance: When Does It Work?” *Journal of International Economics* 70, 161-77.
- Heinemann, F., Nagel, R. and Ockenfels, P. (2004) “The Theory of Global Games on Test: Experimental Analysis of Coordination Games with Public and Private Information,” *Econometrica* 72, 1583-99.
- Duffy and Ochs (2006), “Equilibrium Selection in Entry Games: Experimental Evidence,” working paper.

## 14. Bank Runs and Contagions

- Diamond, D.W. and Dybvig, P.H. (1983) “Bank Runs, Deposit Insurance, and Liquidity,” *Journal of Political Economy* 91, 401-19.
- Allen, F. and Gale, D. (2000), “Financial Contagion,” *Journal of Political Economy* 108, 1-33.
- Corbae and Duffy (2006) “Experiments with Network Formation,” working paper.