Topics in Macroeconomics: Firms and Cities in the Aggregate Economy
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Economics 522, Spring 2008 (2nd Half)

Syllabus

Overview: This is a graduate course in the second year macroeconomics field. We will be concerned with aggregate implications of intermediate organization of economic activity. In particular, the implications of theories of organizations and firm dynamics on aggregate outcomes, including labor markets as well as output growth. We will focus on both the restrictions that intermediate organization imposes on aggregate models and the restrictions that aggregate facts impose on microeconomic theories of firms and organizations. Another one of this type of intermediate organizations is cities. We will study the role of cities, and again their relationship with macroeconomic variables.

Organization: The class meets on Mondays and Wednesdays from 1:00 to 2:30. My office hours are on Thursdays from 3:00 to 5:00 at my office in Fisher 309. You can also contact me by E-mail at rossi@princeton.edu. I will post a syllabus with links to many of the papers in the reading list at: https://blackboard.princeton.edu/pucourse/ECO522_S2008

Grading: Your course grade will be based on a 45 minute presentation of two papers in the syllabus and a written project due on May 14. Your choice of papers should be consistent with your interests. The written project should be on an original research idea, hopefully related to the two papers presented, but necessarily related to the course topics. Descriptions or reviews of the literature are acceptable but not as ambitious. In any case, your idea should be expressed in the context of the relevant literature. Only one idea per project, please! You can also choose a topic of the first part of the course (Krusell) as we will grade both parts together.
Readings:

1. Firm Dynamics and the size distribution of firms

1.1. Theory

1.1.1. Industry Equilibrium, Firm Dynamics, and Entry and Exit


1.1.2. Firm Size and Age Dynamics

1.1.3. Financial Frictions and Incomplete Contracts


1.1.4. Firms and Aggregate Fluctuations


1.1.5. Investment and Adjustment Costs

1.1.6. Firms and Policy


1.1.7. Vintage Capital


1.2. Evidence

1.2.1. Size Distribution of Firms


1.2.2. Cohort Effects in the Size Distribution of Firms


1.2.3. Misallocation


1.2.4. Adjustment Costs


1.2.5. Firm Growth and Entry and Exit Rates

2. Technological change, labor markets and firm structure

2.1. Theory

2.1.1. Skill Biased Technological Change


2.1.2. Organizational Structure


2.1.3. Organizational Structure, Entrepreneurship and Aggregate Implications


2.1.4. Organizational Structure and Growth


2.2. Evidence

2.2.1. Technological Change and Organizational Structure


2.2.2. Technological Change and the Wage Distribution.
• Huggett, Ventura and Yaron, 2007, “Sources of Lifetime Inequality,” mimeo.

3. Cities, Scale effects and Growth

3.1. Theory

3.1.1. Growth

3.1.2. Urban Growth


3.1.3. City Creation and Structure


• Teulings and Gautier, 2003, “Search and the City,” mimeo.

3.1.4. The Size Distribution of Cities


3.2. Evidence

3.2.1. The Size Distribution of Cities

• Dobkins and Ioannides, 2000, “Spatial Interactions Among U.S. Cities: 1900-1990,” 

Examination,” Regional Science and Urban Economics, 33(2):127-137

• Rosenthal and Strange, 2003, “Evidence on the Nature and Sources of Agglomeration 
Economies,” Handbook of Urban and Regional Economics, Henderson and J.-F. Thisse, 
eds.

• Soo, 2005, “Zipf's Law for cities: a cross-country investigation,” Regional Science and 
Urban Economics, 35(3), 239-263.

3.2.2. The Geographic Distribution of Economic Activity

• Davis and Weinstein, 2002, “Bones, Bombs, and Break Points: The Geography of 