Course Outline and Reading List

Items marked “W” are available on the web. If viewed on screen with an up to date viewer, this file will show links to the bibliography at the end and to URL's where the paper can be downloaded (in cases where they exist). The outline and reading list are a bit overstuffed. The topics will be pruned as we go along, if necessary.

Topic 1: Transversality and Stochastic Lagrange Multipliers

Pitfalls of conventional TVC’s. Sufficiency for concave problems. The linear-quadratic permanent income model revisited. Setting up a DSGE for solution.

References:

Notes: “Random Lagrange Multipliers and Transversality” (Sims, 2000) W

Notes: “Stochastic Lagrange Multipliers for Problems with Lagged Expectations” W

Topic 2: Unclever Solutions for Linear RE Models

Getting the computer to do the hard work for bigger models. Continuous and discrete time.

References:

“Solving Linear Rational Expectations Models” (Sims, to appear) W

Topic 3: Real Business Cycle Models

As substantive claims; as a modeling style; compatibility with observed price stickiness.

References:

“Resuscitating Real Business Cycles” (King and Rebelo, 2000)
“Measures of Fit for Calibrated Models” (Watson, 1993)
“Stickiness” (Sims, 1998b) W (Only the models of “neutral stickiness”, in the first part of the paper, are relevant here.)

Topic 4: Intertemporal Aspects of Fiscal Policy

Identification problems in estimating effects; tax smoothing; optimal capital taxation; optimal inflation taxes; the burden of public debt; natural resource exhaustion

References:

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“Optimal Fiscal and Monetary Policy in an Economy without Capital" (Lucas and Stokey 1983)
“Federal Deficit Policy and the Effects of Public Debt Shocks” (Barro 1980)
“Fiscal Consequences for Mexico of Adopting the Dollar" (Sims 1999)
“Econometric Implications of the Government Budget Constraint" (Sims 1998a)
“Optimal Taxation of Capital Income in General Equilibrium with Infinite Lives" (Chamley 1986)
“Optimal Taxation Without State-Contingent Debt” (Marcet, Sargent, and Seppälä 2000)
“National Debt in a Neoclassical Growth Model” (Diamond 1965)
“Debt, Deficits, and Finite Horizons” (Blanchard 1985)

**Topic 5: International Risk Sharing and Transmission of Business Cycles**

References:
“Domestic Savings and International Capital Flows" (Feldstein and Horioka 1991)
“Spurious Welfare Reversals in International Business Cycle Models" (Kim and Kim 1999)


Higher order expansions; Projection methods; parameterized expectations; fixed-point methods; checking accuracy.

References:
Numerical Methods in Economics (Judd 1998)
“Solving the Stochastic Growth Model by Parameterizing Expectations", (Den Haan and Marcet 1990)
“Accuracy in Simulations", (Den Haan and Marcet 1994)

**Topic 7: Exchange Rates and Exchange Rate Crises**

First generation; second generation; fiscal.

References:
Rogoff and Obstfeld (1996, Sections 8.1-8.4)
“Fiscal Foundations of Price Stability in Open Economies", (Sims 1997)
**Topic 8:** Policy Games and Learning

References:

“A Positive Theory of Monetary Policy in a Natural Rate Model” (Barro and Gordon, 1983)

The Conquest of American Inflation (Sargent, 1999)

“Projecting Policy Effects with Statistical Models” (Sims, 1988)

**Topic 9:** Using Models to Formulate Policy

Comparing quantitative policy models to academic models; the role of quantitative models in the policy process — rules, commitment, targets; does the Lucas critique imply there is no such thing as real time policy analysis?

References:

“Policy Rules for Inflation Targeting” (Rudebusch and Svensson, 1999)

“Modest Policy Interventions” (Leeper and Zha, 2001)

“Autoregressions, Expectations and Advice” (Sargent, 1984)

“A Rational Expectations Framework for Short Run Policy Analysis” (Sims, 1987)

REFERENCES


