Advanced Macroeconomic Theory
Economics 205C

This is the third course in the three-quarter sequence in macroeconomics for students in the Ph.D. Program in Economics. Four major topics will be covered: extension of the new Keynesian model to open economies, financial market imperfections, monetary policy with financial frictions and fiscal policy.

Several readings will be from two texts, C. E. Walsh, *Monetary Theory and Policy* (3rd ed., MIT Press, 2010) and Ljungqvist and Sargent, *Recursive Macroeconomic Theory* (2nd ed., MIT Press, 2004). Readings are denoted by * are required, but additional readings from this list will be assigned in lecture. Most of the other readings are listed as useful references if you are interested in pursuing a particular topic.

Your evaluation in this course will be based on an in-class midterm (tentatively scheduled for Tuesday, May 3rd), a referee report and a three hour final exam. The final exam is scheduled for Thursday, June 9 12:00-3:00 pm. Exercises and many of the readings will be posted at http://people.ucsc.edu/~kkletzer/205cSp11/.

My office hours will be Monday 3:30-4:30 and Friday 10-11 in 461 E2. You should feel free to ask to see me by appointment at our mutual convenience. My office phone is 9-3406 and email address is kkletzer@ucsc.edu.

Schedule and Readings

I. Open Economy
   A. The open economy NK model
      * Walsh, sections 9.2-9.4
      * Obstfeld and Rogoff, *Foundations of International Macroeconomics*, 1996, sections 10.1, 10.2

   B. Monetary policy in the open economy
      * Walsh, section 9.5.
II. Financial markets

A. Asset pricing


B. Self-insurance and incomplete commitment

* Ljungqvist and Sargent, chapter 16 and sections 17.1-17.10 and 17.13.


* Ljungqvist and Sargent, sections 20.1-20.6 and 19.1-19.4


C. Collateral and liquidity


III. Financial Frictions

A. Monetary policy and interest rates

* Walsh, sections 10.1-10.4


B. Imperfect information and agency costs

* Walsh, sections 10.5—10.6


C. Frictions and optimal monetary policy


IV. Real Frictions
A. Search and unemployment

B. Informational frictions
* Walsh, section 5.2.

V. Fiscal Policy
A. Public Debt
* Ljungqvist and Sargent, chapter 10.

B. Optimal taxation

C. Policy credibility
Ljungqvist and Sargent, chapter 22.