

M.Sc. Economics

Code:	017 919	Type:	M.Sc. 2010-2012 2 nd year, Spring 2012
Title:	Overlapping Generations (Heijdra) Open Economy Dynamics (Fisher)		
Lecturer:	Ben Heijdra and Walter H. Fisher		
ECTS:	3	Contact hours (per semester):	10 á 120 min.
Semester:	Spring 2012	Frequency of the lecture:	10 units (5 units Heijdra, 5 units Fisher)
Dates:	May 2 until May 16, 2012 (Final Exam May 21, 2012)		

Prerequisites:	First Year Macroeconomics Sequence of the M.Sc.
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Learning objectives – Fisher (What are the intended learning outcomes? Which skills will be acquired?):
The objective of this part of the course (Fisher) is to acquaint the students with modern models of open economy dynamics and growth

Content (Which professional competence and which contents will be imparted?):
<p>Walter Fisher</p> <p>This part of the course deals with modern open economy macrodynamics. Among the issues we will be addressing are:</p> <ul style="list-style-type: none"> i) the basic one-good small open economy ii) one-sector, small open economy models with physical capital accumulation iii) two-sector models, small open economy models with traded and non-traded goods iv) endogenous growth in the small open economy context. <p>Ben Heijdra</p> <p>The course deals with a number of advanced topics in macroeconomics. We start out by developing the Ramsey Model. This model postulates the existence of a representative agent who maximizes an intertemporal utility function under perfect foresight. In the Extended Ramsey Model, the agent not only chooses consumption of goods but also labour supply. Next, we introduce the continuous-time overlapping generations model due to Yaari and Blanchard. In this model, individual agents face lifetime uncertainty (longevity risk) and thus have finite lives. New agents are born at each instant, so (infinitely) many disconnected generations co-exist at any moment in time. We show the main applications of the continuous-time overlapping generations model and also discuss some recent developments. In the final topic of this course, we study the discrete-time overlapping generations model due to Samuelson and Diamond. This model is very useful to discuss the effects of pensions and population ageing. The course makes students familiar with the main analytical tools and modeling strategies in modern macroeconomic theory.</p>

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Teaching approach (Description of the learning and teaching methods):

Lectures

Workload (Optional: definition of workload (ECTS), divided in pre-modules (e.g. pre-readings), core-modules (contact hours), post-modules (e.g. case studies)):

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Language of instruction (Information on the language of teaching):

English

Literature (Books, published journal articles, and working papers):

Literature Ben Heijdra

BJH = Heijdra, Ben J. (2009). Foundations of Modern Macroeconomics, Second Ed. Oxford: Oxford University Press. *=mandatory reading

Lecture 1: Dynamic Representative-Agent Models

- *BJH, Chapters 13.5 and 15
- *Judd, K.L. (1987). The welfare cost of factor taxation in a perfect-foresight model. Journal of Political Economy, 95:675-709.
- Heijdra, B.J. (1998). Fiscal policy multipliers: The role of market imperfection and scale economies. International Economic Review, 39:659-696.

Lecture 2: The Continuous-Time Overlapping Generations Model: Basic Theory and Applications

- *BJH, Chapter 16.
- *Heijdra, B.J. & Ligthart, J. E. (2007). Fiscal policy, monopolistic competition, and finite lives. Journal of Economic Dynamics and Control, 31: 325-359.

Lectures 3 & 4: The Continuous-Time Overlapping Generations Model: Beyond the Basic Model

- *Heijdra, B. J. & Romp, W.E. (2008). A life-cycle overlapping-generations model of the small open economy. Oxford Economic Papers, 60: 89-122.
- *Heijdra, B. J. & Mierau, J.O. (2009). Annuity market imperfection, retirement, and economic growth. CESifo Working Paper, Nr. 2717, July 2009.
- *Heijdra, B. J. & L.S.M. Reijnders (2009). Economic growth and longevity risk with adverse selection. CESifo Working Paper, Nr. 2898, December 2009.

Lecture 4 & 5: Discrete-Time Overlapping Generations Model: Basic Model and Applications

- *BJH, Chapter 17.
- *Heijdra, B. J., Mierau, J.O. & L.S.M. Reijnders (2010). The tragedy of annuitization.

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CESifo Working Paper, July 2010.

Literature Walter Fisher

Obligatory

International Macroeconomic Dynamics, Stephen J. Turnovsky, MIT Press, 1997. See especially chapters 2-5.

Additional literature (E.g. books, articles, cases, papers):

1. *Introduction to Modern Economic Growth*, Daron Acemoglu, MIT Press, 2009. See especially chapter 19.

2. *Capital Accumulation and Economic Growth in a Small Open Economy*, Stephen J. Turnovsky, Cambridge, 2009.

3. A list of supporting literature will be handed out the first day of class.

Mode of examination (Mode of the examinations and tests (e.g. oral or written examination, lecture, homework, papers, class participation)):

Final Examination

Grading:

- Final examination: 100%.

Special features (E.g. excursion, guest speaker):

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