

M.Sc. Economics

Code:		Type:	M.Sc. 2009-2011 1 st year, Spring 2011

Title:	Overlapping Generations (Heijdra) Open Economy Dynamics (Fisher)
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Lecturer:	Ben J. Heijdra
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ECTS:	3	Contact hours (per semester):	10 á 110 min.
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Semester:	Spring 2011	Frequency of the lecture:	10 units (5 units Heijdra, 5 units Fisher)
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Dates:	May 16 until June 01, 2011 (Final Exam June 3, 2011)
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Prerequisites:	First Year Macroeconomics Sequence of the M.Sc.
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Learning objectives – Heijdra (What are the intended learning outcomes? Which skills will be acquired?):

The purpose of this part of the course (Heijdra) is to provide an introduction to modern overlapping generations models in macroeconomics, both in Blanchard-Yaari continuous-time framework and in the Diamond-Samuelson discrete-time setting.

Content (Which professional competence and which contents will be imparted?):

- The course starts by reminding students of the representative agent Ramsey model (which is not lectured on in detail). The Ramsey model is then extended to allow agents to choose labor 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 regarding longevity risk and economic growth.
- 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, population ageing, and the availability of annuities. The course makes students familiar with the main analytical tools and modeling strategies in modern macroeconomic theory.

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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M.Sc. Economics

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

English

Obligatory literature – Heijdra (Books, published journal articles, and working papers):

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

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.

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. CESifo Working Paper, July 2010.

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

- Heijdra, B.J. (1998). "Fiscal policy multipliers: The role of market imperfection and scale economies." *International Economic Review*, 39:659-696. (For Lecture 1)

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

Final Examination

M.Sc. Economics

Grading:

- Final examination: 100%.

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

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Course website:

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