

## M.Sc. Economics

<b>Code:</b>		<b>Type:</b>	M.Sc. 1 <sup>st</sup> semester lecture series
--------------	--	--------------	---

<b>Title:</b>	Macroeconomics I		
---------------	------------------	--	--

<b>Lecturer:</b>	Christian Haefke		
------------------	------------------	--	--

<b>ECTS:</b>	3	<b>Contact hours (per semester):</b>	24 à 45 min.
--------------	---	--------------------------------------	--------------

<b>Semester:</b>	Winter 2009/10	<b>Frequency of the lecture:</b>	Twice a week 90 min.
------------------	----------------	----------------------------------	----------------------

<b>Dates:</b>	October 1 <sup>st</sup> , 2009 until November 17 <sup>th</sup> , 2009		
---------------	---	--	--

<b>Prerequisites:</b>	Knowledge of constrained optimization		
-----------------------	---------------------------------------	--	--

### Learning objectives (What are the intended learning outcomes? Which skills will be acquired?):

The goal of this introductory course is to discuss key issues in macroeconomics at an intuitive level. Important concepts that will act as building blocks for later models/courses are presented and developed in simple settings so that we can focus as much as possible on economic insights.

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

- **Introduction** (1 lecture): administrative issues, basic definitions; empirical observations on the economy in the short and long run; Euler's theorem
- **Investment** (2 lectures): properties of the neoclassical production function; Inada conditions; user cost of capital, convex adjustment costs, average and marginal  $q$ ; irreversibility, non-convex adjustment costs
- **Consumption** (2 lectures): interpretation of risk aversion; intertemporal elasticity of substitution; Random Walk Hypothesis; certainty equivalence; precautionary savings; borrowing constraints; excess smoothness, excess volatility; habit formation; keeping up with the Joneses
- **Asset Pricing** (2 lectures): consumption based asset pricing; no trade assumption; term structure; Equity Premium Puzzle; Modigliani-Miller-Theorem
- **Labor Supply** (1 lecture): Labor/leisure choice; Frisch elasticity of labor supply; extensive and intensive margins; empirical evidence
- **Optimal Taxation** (2 lectures): first best, second best; tax wedges; Laffer curve; Judd/Chamley result; reference: Persson/Tabellini, chapter 12 and 15
- **Overlapping Generations Economy** (2 lectures): balanced growth, Golden Rule, social security; government debt; Ricardian Equivalence; endogenous growth; AK structure, monopolistic competition; growth and innovation; reference: Barro/Sala i Martin, appendix to chapter 3

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

Lecture and group work

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

Class: 36 hours, Practice sessions: 7 hours, Problem sets: 10 hours, preparation final exam: 16 hours, pre- and post processing of lectures: 21 hours

## M.Sc. Economics

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

English

### Obligatory literature (E.g. scripts, books, articles, cases, papers):

- For parts 1-5: slides handed out in the course of the semester,
- For part 6: Persson, T.; Tabellini, G.: "Political Economics", *MIT Press*, Cambridge, MA, 2000 (chapters 12 and 15),
- For part 7: Barro, R.; Sala i Martin, X.: "Economic Growth", *MIT Press*, Cambridge, MA, 1999 (appendix A to chapter 3).

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

"Factor Demand with Output Price Uncertainty", Hartman, *AER* 1976, pp 675 – 681  
 "Tobin's Marginal q and Average q: A Neoclassical Interpretation", Hayashi, *Econometrica* 1982, pp 213 – 223  
 "Buffer Stock Saving and the Life Cycle/Permanent Income Hypothesis", Carroll, *QJE* 1997, 1-55  
 "Investment under Uncertainty", chapters 1&2, A. Dixit and R. Pindyck  
 "Understanding Consumption", chapters 1&2, A. Deaton  
 "Modern Labor Economics". chapters 6&7, Ehrenberg and R. Smith  
 "Recursive Macroeconomic Theory", 2<sup>nd</sup> edition, chapter 13, L.Ljungqvist and T. Sargent

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

There will be four problem sets in the course, which will be handed out Thursday after class (as well as posted on the web) and are due the next week on Tuesday at the beginning of class. The graded problem sets will be returned in the practice session. For the problem sets, the students are strongly encouraged to work in groups of up to three. The students may hand in one copy of the solutions for the group. In addition, there will be short quizzes after we have finished topics 2, 4, and 6. The quizzes will take place in the practice sessions. They are relatively straightforward tests of the understanding of the material covered in class, whereas the problem sets will extend that material and will therefore be much harder. After the last session there will be a final exam, which will cover the material of the whole course.

### Grading:

The five problem sets in the course will count for 20% of the course grade (the average of all four problem sets). Exercises handed in after the deadline will be awarded half of the points without any exceptions. The quizzes will count for 10% of the course grade each. The final exam will count for 50% of the grade.

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

/

### Contact information:

Christian Haefke, Ph.D.  
 Department of Economics and Finance  
 Institute for Advanced Studies  
 Stumpergasse 56, A-1060 Vienna  
 Phone: +43 1 59991 181  
 E-mail: christian.haefke@ihs.ac.at

### Office hours:

Friday 11.00 - 12.30  
 Room A 315

### Course website:

<http://www.ihs.ac.at/~haefke> / <https://cecnet.tuwien.ac.at/>