

Syllabus

UCLA - Econ 221 - Fall 2018

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Main Information

Lectures. Tuesdays, 5:05-7:25pm. Bunche Hall 9383.

Office hours. Email me for an appointment.

Website. <https://moodle2.sscnet.ucla.edu/course/view/18F-ECON221A-1>.

Grading. First, I will ask you to replicate two empirical macro or/and finance papers, using publicly available data (e.g. national accounts, Compustat, CRSP, Nielsen Scanner data, other WRDS material, etc.), but for which the replication code was not made available online by the authors (or not fully). I shall give you a list of papers among which to choose. I believe that the best way to learn empirical methods in macroeconomics and finance is to “get your hands dirty”, and practice working with data. The first replication exercise will count towards 40% of your final grade, and the second will count towards 40%. Second, I will ask you to present a recent paper in empirical macroeconomics during the last two lectures. (30 minutes each) Again, I will give you a list from which to choose. This will count towards 20% of your final grade.

Advice on Writing and Giving talks. The following notes contain miscellaneous advice on how to write or how to give a talk. They apply equally well for your assignments in this class. Writing is a know-how which, above all else, requires some practicing. Similarly, giving presentations is not as easy as it looks:

- John Cochrane’s writing tips.
- Jesse Shapiro’s how to give an applied micro talk (applies equally well for applied macro talks).

Course outline. This course will follow an inductive, or bottom-up, approach. Whenever possible, I will start from the facts, and review different theories in light of these facts. I will particularly emphasize empirical observations that have not been explained by currently discussed theories. My hope is that you will find here some inspiration for a dissertation topic.

Textbooks. I will assume that you have basic knowledge of first year macroeconomics and finance, which can be found in many different textbooks. For macroeconomics, I would recommend:

Romer, David. Advanced Macroeconomics. McGraw-Hill Education, 2011.

Galí, Jordi. Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications, Second Edition. Princeton University Press, 2015.

Blanchard, Olivier Jean, and Stanley Fischer. Lectures on Macroeconomics. Vol. 12. 3. Cambridge, MA: The MIT Press, 1990.

If you are interested in how macroeconomics is used in practice, I strongly recommend:

Bénassy-Quéré, Agnès, Benoît Coeuré, Pierre Jacquet, and Jean Pisani-Ferry. Economic Policy: Theory and Practice. Vol. 53. 9. Oxford, New York: Oxford University Press, 2013.

However, there is unfortunately no unified treatment of macroeconomics at the 2nd year Ph.D. Finance. Finance, on the contrary, has two excellent textbooks offering complementary perspectives. John Cochrane’s textbook is structured around the stochastic discount factor view of finance; while John Campbell’s textbook is more agnostic.

Cochrane, John H. Asset Pricing (Revised Edition). Princeton University Press, 2009.

Campbell, John Y. *Financial Decisions and Markets: A Course in Asset Pricing*. Princeton University Press, 2017.

Online Resources. I strongly recommend the NBER Summer Institute Econometric Lectures. Three of them are related to macroeconomics and finance:

Summer Institute Econometric Lecture, 2008, “What’s New in Econometrics: Time Series”, James H. Stock and Mark W. Watson.

Summer Institute Econometric Lecture, 2010, “Financial Econometrics”, Sydney Ludvigson, Yacine Ait-Sahalia, Michael Brandt, & Andrew Lo.

Summer Institute Econometric Lecture, 2011, “Computational Tools & Macroeconomic Applications”, Lawrence Christiano and Jesus Fernandez-Villaverde.

John Cochrane has a course on Asset Pricing on Youtube, which I very strongly recommend:

Cochrane, John H. Asset Pricing, Part 1. YouTube Online Courses.

Cochrane, John H. Asset Pricing, Part 2. YouTube Online Courses.

Bibliography. The following contains a list of readings for each lecture. Those with a sign are papers which will be discussed during class. The first section has some background reading on methodology, empirical macroeconomics, the current state of macroeconomics.

Methodology and the state of macro

McCloskey, Donald N. “The Rhetoric of Economics.” *Journal of Economic Literature* 21, no. 2 (1983): 481–517

Leamer, Edward E. “Let’s Take the Con Out of Econometrics.” *The American Economic Review* 73, no. 1 (1983): 31–43.

Summers, Lawrence H. “Some Skeptical Observations on Real Business Cycle Theory.” *Minneapolis Quarterly Review*, no. Fall (1986): 23–27.

Summers, Lawrence H. “The Scientific Illusion in Empirical Macroeconomics.” *The Scandinavian Journal of Economics* 93, no. 2 (1991): 129–48.

Mankiw, N. Gregory. “The Macroeconomist as Scientist and Engineer.” *Journal of Economic Perspectives* 20, no. 4 (December 2006): 29–46.

Angrist, Joshua D., and Jörn-Steffen Pischke. “The Credibility Revolution in Empirical Economics: How Better Research Design Is Taking the Con out of Econometrics.” *Journal of Economic Perspectives* 24, no. 2 (2010): 3–30.

Sims, Christopher A. “But Economics Is Not an Experimental Science.” *Journal of Economic Perspectives* 24, no. 2 (June 2010): 59–68.

Uhlig, Harald. “Economics and Reality.” *Journal of Macroeconomics*, Has macro progressed?, 34, no. 1 (March 1, 2012): 29–41.

Romer, Paul M. “The Trouble With Macroeconomics,” 2016.

Caballero, Ricardo J. “Macroeconomics after the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome.” *The Journal of Economic Perspectives* 24, no. 4 (2010): 85–102.

Stiglitz, Joseph E. “Where Modern Macroeconomics Went Wrong.” *Oxford Review of Economic Policy* 34, no. 1–2 (January 5, 2018): 70–106.

Reis, Ricardo. “Is Something Really Wrong with Macroeconomics?” *Oxford Review of Economic Policy* 34, no. 1–2 (January 5, 2018): 132–55.

Krugman, Paul. “Good Enough for Government Work? Macroeconomics since the Crisis.” *Oxford Review of Economic Policy* 34, no. 1–2 (January 5, 2018): 156–68.

1 Introduction to Empirical Macro and Finance

Nakamura, Emi, and Jón Steinsson. “Identification in Macroeconomics.” *Journal of Economic Perspectives* 32, no. 3 (August 2018): 59–86.

Ramey, V. A. “Chapter 2 - Macroeconomic Shocks and Their Propagation.” In *Handbook of Macroeconomics*, edited by John B. Taylor and Harald Uhlig, 2:71–162. Elsevier, 2016.

Blanchard, Olivier, and Roberto Perotti. “An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output.” *The Quarterly Journal of Economics* 117, no. 4 (2002): 1329–68.

Romer, Christina D., and David H. Romer. “Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz.” *NBER Macroeconomics Annual* 1989, Volume 4, January 1, 1989, 121–84.

Giavazzi, Francesco, and Marco Pagano. “Can Severe Fiscal Contractions Be Expansionary? Tales of Two Small European Countries.” *NBER Macroeconomics Annual* 5 (January 1, 1990): 75–111.

Romer, Christina D., and David H. Romer. “A New Measure of Monetary Shocks: Derivation and Implications.” *American Economic Review* 94, no. 4 (September 2004): 1055–84.

Romer, Christina D., and David H. Romer. “The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks.” *American Economic Review* 100, no. 3 (June 2010): 763–801.

Sims, Christopher A. “Macroeconomics and Reality.” *Econometrica* 48, no. 1 (1980): 1–48.

Cochrane, John H. “Shocks.” *Carnegie-Rochester Conference Series on Public Policy* 41 (December 1994): 295–364.

“Empirical Macroeconomics. Thomas J. Sargent and Christopher A. Sims” *Scientific Background on the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel* 2011.

2 Consumption

Keynes, John Maynard. *The General Theory of Employment, Interest, and Money*, 1936.

Friedman, Milton. *Theory of the Consumption Function*. Princeton University Press, 1957.

Kotlikoff, Laurence J., and Lawrence H. Summers. “The Role of Intergenerational Transfers in Aggregate Capital Accumulation.” *Journal of Political Economy* 89, no. 4 (1981): 706–32.

Modigliani, Franco. “Life Cycle, Individual Thrift, and the Wealth of Nations.” *The American Economic Review* 76, no. 3 (1986): 297–313.

Poterba, James M., and Lawrence H. Summers. “Finite Lifetimes and the Effects of Budget Deficits on National Saving.” *Journal of Monetary Economics* 20, no. 2 (September 1, 1987): 369–91.

Summers, Lawrence, Chris Carroll, and Alan S. Blinder. “Why Is U.S. National Saving so Low?” *Brookings Papers on Economic Activity* 1987, no. 2 (1987): 607–42.

Campbell, John Y., and N. Gregory Mankiw. “The Response of Consumption to Income: A Cross-Country Investigation.” *European Economic Review* 35, no. 4 (May 1, 1991): 723–56.

Cochrane, John H. “The Response of Consumption to Income: A Cross-Country Investigation: By J.Y. Campbell and N.G. Mankiw Why Test the Permanent Income Hypothesis?” *European Economic Review* 35, no. 4 (May 1, 1991): 757–64.

Deaton, Angus. *Understanding Consumption*. Oxford University Press, 1992.

Parker, Jonathan A. "Spendthrift in America? On Two Decades of Decline in the U.S. Saving Rate." *NBER Macroeconomics Annual* 1999, January 1, 2000, 317–87.

Mankiw, N. Gregory. "The Savers-Spenders Theory of Fiscal Policy." *American Economic Review* 90, no. 2 (May 2000): 120–25.

Johnson, David S., Jonathan A. Parker, and Nicholas S. Souleles. "Household Expenditure and the Income Tax Rebates of 2001." *American Economic Review* 96, no. 5 (December 2006): 1589–1610.

Carroll, Christopher D. "Why Do the Rich Save So Much?" In *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, edited by Joel B. Slemrod, Vol. D. Harvard Univ Pr, 2000.

Blundell, Richard, Luigi Pistaferri, and Ian Preston. "Consumption Inequality and Partial Insurance." *American Economic Review* 98, no. 1998 (2008): 1887–1891.

Broda, Christian, and Jonathan A. Parker. "The Economic Stimulus Payments of 2008 and the Aggregate Demand for Consumption." *Journal of Monetary Economics*, Supplement issue: October 19-20, 2012 Research Conference on "Financial Markets, Financial Policy, and Macroeconomic Activity" Sponsored by the Study Center Gerzensee and the Swiss National Bank, 68 (December 1, 2014): S20–36.

Wong, Arlene. "Population Aging and the Transmission of Monetary Policy to Consumption." 2016 Meeting Paper. Society for Economic Dynamics, 2016.

Parker, Jonathan A. "Why Don't Households Smooth Consumption? Evidence from a \$25 Million Experiment." *American Economic Journal: Macroeconomics* 9, no. 4 (October 2017): 153–83.

Kueng, Lorenz. "Excess Sensitivity of High-Income Consumers." *The Quarterly Journal of Economics* 133, no. 4 (November 1, 2018): 1693–1751.

3 Investment

Modigliani, Franco, and Merton H. Miller. "The Cost of Capital, Corporation Finance and the Theory of Investment." *The American Economic Review* 48, no. 3 (1958): 261–97.

Summers, Lawrence H., Barry P. Bosworth, James Tobin, and Philip M. White. "Taxation and Corporate Investment: A Q-Theory Approach." *Brookings Papers on Economic Activity* 1981, no. 1 (1981): 67–140.

Hayashi, Fumio. "Tobin's Marginal Q and Average Q: A Neoclassical Interpretation." *Econometrica* 50, no. 1 (1982): 213–24.

Bernanke, Ben S. "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression." *The American Economic Review* 73, no. 3 (1983): 257–76.

Fazzari, Steven M., R. Glenn Hubbard, Bruce C. Petersen, Alan S. Blinder, and James M. Poterba. "Financing Constraints and Corporate Investment." *Brookings Papers on Economic Activity* 1988, no. 1 (1988): 141–206.

Bernanke, Ben S., and Alan S. Blinder. "The Federal Funds Rate and the Channels of Monetary Transmission." *The American Economic Review* 82, no. 4 (1992): 901–21.

Kashyap, Anil K., and Jeremy C. Stein. "Monetary Policy and Bank Lending." In *Monetary Policy*, edited by N. Gregory Mankiw, 221–261. January. University of Chicago Press, 1994.

Campello, Murillo, John R. Graham, and Campbell R. Harvey. "The Real Effects of Financial Constraints: Evidence from a Financial Crisis." *Journal of Financial Economics*, The 2007-8 financial crisis: Lessons from corporate finance, 97, no. 3 (September 1, 2010): 470–87.

Gilchrist, Simon, and Egon Zakrajšek. "Credit Spreads and Business Cycle Fluctuations." *American Economic Review* 102, no. 4 (June 2012): 1692–1720.

Chodorow-Reich, Gabriel. “The Employment Effects of Credit Market Disruptions: Firm-Level Evidence from the 2008–9 Financial Crisis.” *The Quarterly Journal of Economics* 129, no. 1 (February 1, 2014): 1–59.

Giroud, Xavier, and Holger M. Mueller. “Firm Leverage, Consumer Demand, and Employment Losses During the Great Recession.” *The Quarterly Journal of Economics* 132, no. 1 (February 1, 2017): 271–316.