



Economic Policy Analysis
Department of Economics, ECO606
Saturdays, 1245-1530 pm.
Spring 2019

Instructor: Ms. Marzhan Aikimbaeva
Email address: aikimbaeva_m@auca.kg
Office hours: By appointment. Please make sure, to e-mail me first so we can arrange a date and time for your questions.

Course Description

This is the second portion of advanced macroeconomics course. The focus in this course will be on how modern macroeconomists attempt to model and understand time series fluctuations in the major macroeconomic variables. Given the importance of banking and financial sector developments in recent years, we will also cover material related to the banking sector, financial crises and credit crunches.

Required Texts, Materials, or Equipment

There are no particular text books for the course. The material will consist of lecture notes and some chapters from particular books when necessary. The key reading materials will be scientific articles, the last two uploaded on the e-course each week before lectures.

Daily Work/Homework

Readings should be completed before class: lecture will make more sense, and the process of trying to learn how to constructively read modern economics journal articles is an important professional skill. Problem sets must be attempted--in groups or alone. One of the major points of the course is to give the students familiarity with the analytical tools that modern macroeconomists use. The only way to become proficient in their use is to use them.

Major Assignments: Descriptions

Assessment for ECO606 is based on three components; 10% in class participation, 12 problem sets worth 60% of the final grade and a quiz worth 20%.

Class Participation

Class participation is mandatory and will be worth 10% of the final grade. Attendance will be taken at the end of each class. If you cannot make it to the class, for any reason, please make sure to e-mail me and let me know in advance. You won't be marked absent unless, you bring in a report from the doctor's in case of illness.



Course Grading

- Class Participation = 10%
- In-class quiz = 30%
- Problem sets = 60%

Grade Cutoffs:

- A- 90-93
- B+ 87-90
- B 83-87
- B- 80-83
- C+ 77-80
- C 70-77
- C- 65-70
- D 60-65
- F 60 and below

Course Policies and Information for Students

1. PENALTIES FOR LATE WORK and REQUESTS FOR EXTENSIONS

Extensions will not be granted / late submissions won't be accepted unless, there is a documented family emergency or health problem.

2. POLICIES ON MISSED EXAMS, MAKE-UP EXAMS OR QUIZZES

There will be no make-up quiz if missed.

3. ETHICS/VIOLATIONS OF ACADEMIC INTEGRITY:

Academic dishonesty will not be tolerated at AUCA. All assignments, quizzes, and exams must be done by on your own. If the student is found to engage in cheating, plagiarism, inventing false information or citations, helping someone else or any other violation of the "Code of Academic Integrity" should expect the severest penalties available under AUCA policies.

- According to Merriam-Webster Online Dictionary; Plagiarize means: "to steal and pass off (the ideas or words of another) as one's own, to use (another's production) without crediting the source, to commit literary theft and to present as new and original an idea or product derived from an existing source." As a result of these, Plagiarism is an act of fraud.

Students found guilty of academic dishonesty will be assigned an appropriate academic penalty. For more information, please visit: http://www.auca.kg/en/registrar_code_conduct/

Disclaimer

The instructor reserves the right to make modifications to this information throughout the semester.



Date	Topics/Assigned Readings/Homework	Major Assignments and Deadlines
January 26 th , 2019	Lecture 1. Overview of the course. Galí, Jordi. "Technology, Employment and the Business Cycle: Do Technology Shocks Explain Aggregate Fluctuations?" <i>American Economic Review</i> 89, no. 1 (1999): 249-271.	None.
February 2 nd , 2019	Lecture 2. Vector autoregression models (VARs). (Underlying non-linear dynamics. Markov processes. Invertibility and fundamentalness. Finite-lag VAR representations. Number of shocks and number of variables.) Fernández-Villaverde, Jesús, Juan Francisco Rubio-Ramírez, and Thomas Sargent. "A, B, C's (and D's) for Understanding VARs." Federal Reserve Bank of Atlanta, Working Paper 2005-9, May 2005. Chari, V. V., Patrick J. Kehoe, and Ellen R. McGrattan. "A Critique of Structural VARs Using Business Cycle Theory." Federal Reserve Bank of Minneapolis Federal Reserve, Research Department Staff Report 364 (May 2007).	
February 9 th , 2019	Lecture 3. Structural VARs (Short run/long run identification restrictions, inequality restrictions. Identifying a subset of shocks. Shocks in Organisation for Economic Co-operation and Development (OECD) economies versus shocks in small open economies.) Blanchard, Olivier Jean, and Danny Quah. "The Dynamic Effects of Aggregate Demand and Aggregate Supply Disturbances." <i>American Economic Review</i> 79, no. 4 (September 1989): 655-673. Blanchard, Olivier J. "Consumption and the Recession of 1990-1991." <i>The American Economic Review</i> 83, no. 2 (May 1993): 270-274. Labhard, Vincent. "What Caused the 2000/01 Slowdown? Results From a VAR Analysis of G7 GDP Components." Working Paper no. 190, International Economic Analysis Division, Bank of England, 2003.	Problem set I is due.
February 16 th , 2019	Lecture 4. A few major shocks or many? Stock, James H., and Mark W. Watson. " Implications of Dynamic Factor Models for VAR Analysis ." National Bureau of Economic Research Working Paper No. 11467, July 2005. Bernanke, Ben, Jean Boivin, and Piotr S. Elias. "Measuring the Effects of Monetary Policy; A Factor Augmented Vector Autoregressive (FAVAR) Approach." <i>The Quarterly Journal of Economics</i> 120, no. 1 (2005): 387-422. Forni, M., D. Giannone, M. Lippi, and L. Reichlin. "Opening the Black Box: Structural Factor Models with Large Cross-sections." European Central Bank Working Paper Series no. 712, January 2007	Problem set II is due.
February 23 rd , 2019	No class- Defender of the Fatherland Day.	



<p>March 2nd, 2019</p>	<p>Lecture 5. Technology versus demand shocks (Actual or anticipated technological shocks? What are demand shocks?) Beaudry, Paul, and Franck Portier. "Stock Prices, News, and Economic Fluctuations." National Bureau of Economic Research Working Paper No. 10548, March 2004. Lorenzoni, Guido. "A Theory of Demand Shocks." Mimeograph, Massachusetts Institute of Technology (November 2006) Barsky, Robert, and Eric R. Sims. "Information Shocks, Animal Spirits, and the Meaning of Innovations in Consumer Confidence." Mimeograph, University of Michigan (June 2006).</p>	<p>Problem set III is due.</p>
<p>March 9th, 2019</p>	<p>Quiz (20% of the grade)</p>	<p>Problem set IV is due.</p>
<p>March 16th, 2019</p>	<p>Lecture 6. The great moderation (Large decrease in aggregate volatility over the last 40 years. Due to smaller shocks, different propagation mechanisms, or better policy?) Stock, James H., and Mark W. Watson. "Has the Business Cycle Changed and Why?" Mimeograph, (August 2002). Blanchard, Olivier, and John Simon. "The Long and Large Decline in U.S. Output Volatility." Brookings Papers on Economic Activity 2001, no. 1 (2001): 135-174. Canova, Fabio, and Luca Gambetti. "Structural Changes in the U.S. Economy: Bad Luck or Bad Policy?" Centre for Economic Policy Research Discussion Paper No. 5457 (January 2006). Galí, Jordi, and L. Gambetti. "On the Sources of the Great Moderation." (June 2007).</p>	<p>Problem set V is due.</p>
<p>March 23rd, 2019</p>	<p>Lecture 7. Basic (non-cyclical) facts about unemployment flows (Worker/job flows. Unemployment versus non participation. Unemployment incidence versus duration. Differences across countries. Differences across decades. Differences across sex and age groups. Differences in labor market institutions.) Blanchard, Olivier. "European Unemployment: The Evolution of Facts and Ideas." Economic Policy 21, no. 45 (January 2006): 7-59.</p>	<p>Problem set VI is due.</p>
<p>March 30th, 2019</p>	<p>Lecture 8. Flows, bargaining, and unemployment (Flows and matching, the role of wage setting. Efficiency. The role of tax wedges, replacement rates. Specificity and hold ups. Forensic tools: The matching function, the Beveridge curve.) Pissarides, Christopher A. Equilibrium Unemployment Theory. 2nd ed. Cambridge MA: MIT Press, 2000, chapters 1 and 8. ISBN: 9780262161879. Blanchard, Olivier, and Peter Diamond. "The Beveridge Curve." Brookings Papers on Economic Activity. Acemoglu, K. Daron, and Robert Shimer. "Holdups and Efficiency with Search Frictions." International Economic Review 40, no. 4 (November 1999).</p>	<p>Problem set VII is due.</p>

<p>April 6th, 2019</p>	<p>Lecture 10. Role of institutions I: Employment protection and the labor market (How does employment protection affect flows and unemployment duration? Should we think of separations as privately efficient? How should employment protection be designed? Does employment protection affect productivity levels, and/or productivity growth?) Pissarides, Christopher A. <i>Equilibrium Unemployment Theory</i>. 2nd ed. Cambridge MA: MIT Press, 2000, chapters 2 and 9. ISBN: 9780262161879. Haltiwanger, John, Stephano Scarpetta, and Helena Schweiger. "Assessing Job Flows Across Countries; The Role of Industry, Firm Size, and Regulations." World Bank Policy Research Working Paper No. 4070, November 2006.</p>	<p>Problem set VIII is due.</p>
<p>April 13th, 2019</p>	<p>Lecture 11. Role of institutions II: Trust, hold-ups, and bargaining (Why does the quality of labor relations appear to matter? Specificity, hold-ups, and inefficient reallocation.) Blanchard, Olivier, and Thomas Philippon. "The Quality of Labor Relations and Unemployment." Massachusetts Institute of Technology Department of Economics Working Paper 04-25, November 2006. Algan, Yann, and Pierre Cahuc. "The Roots of Low European Unemployment: Family Culture?" IZA Discussion Paper 1683 (July 2005).</p>	<p>Problem set IX is due.</p>
<p>April 20th, 2019</p>	<p>Lecture 12. Cyclical movements in unemployment (How does unemployment respond to shocks? How does this depend on wage determination, on institutions? A return to real and nominal rigidities.) Shimer, Robert. "The Cyclical Behavior of Equilibrium Unemployment and Vacancies." <i>American Economic Review</i> 95, no. 1 (2005): 25-49. Hall, Robert E. "Employment Fluctuations with Equilibrium Wage Stickiness." <i>American Economic Review</i> 95, no. 1 (2005): 50-64. Blanchard, Olivier J., and Jordi Galí. "A New-Keynesian Model with Unemployment." MIT Department of Economics Working Paper No. 06-22, July 2006.</p>	<p>Problem set X is due.</p>
<p>April 27th, 2019</p>	<p>Lecture 13. Dynamic stochastic general equilibrium models (What they do, how they are identified, how they are estimated, how they fare, and what shocks they point to.) Ireland, P. "Technology Shocks in the New Keynesian Model." <i>Review of Economics and Statistics</i> 86, no. 4 (November 2004): 923-936. Christiano, Lawrence, Martin Eichenbaum, and Charles Evans. "Nominal Rigidities and the Dynamic Effects of Shocks to Monetary Policy." <i>Journal of Political Economy</i> 113, no. 1 (February 2005): 1-45. Smets, Frank, and Raf Wouters. "An Estimated Dynamic Stochastic General Equilibrium Model of the Euro Area." <i>Journal of the European Economic Association</i> 1, no. 5 (2003): 1123-1175.</p>	<p>Problem set XI is due.</p>
<p>May 4th, 2019</p>	<p>Lecture 14. Dynamic stochastic general equilibrium models cont. (What they do, how they are identified, how they are estimated, how they fare, and what shocks they point to.) Ireland, P. "Technology Shocks in the New Keynesian Model." <i>Review of Economics and Statistics</i> 86, no. 4 (November 2004): 923-936.</p>	<p>Problem set XII is due.</p>



	<p>Christiano, Lawrence, Martin Eichenbaum, and Charles Evans. "Nominal Rigidities and the Dynamic Effects of Shocks to Monetary Policy." <i>Journal of Political Economy</i> 113, no. 1 (February 2005): 1-45.</p> <p>Smets, Frank, and Raf Wouters. "An Estimated Dynamic Stochastic General Equilibrium Model of the Euro Area." <i>Journal of the European Economic Association</i> 1, no. 5 (2003): 1123-1175.</p>	
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