

Macroeconomic Theory III

A star denotes required reading.

1. The Canonical Model of Consumption and Portfolio Choice.

- \* Blanchard, O. and S. Fischer, Lectures on Macroeconomics, MIT Press, 1989, Sections 2-1, 2-2, 6-2
- \* Sargent, T. Dynamic Macroeconomic Theory, Harvard Press, 1987, Chapter 1
- Abel, A. "Consumption and Investment", in Handbook of Monetary Economics, Volume 2, Chapter 14, 726-775, Sections 1-6.
- Samuelson, P. "Lifetime Portfolio Selection by Dynamic Stochastic Programming", REStat, August 1969, 239-246
- Merton, R. "Optimum Consumption and Portfolio Rules in a Continuous Time Model", JET, December 1971, 373-413
- Weil, P. "Non Expected Utility in Macroeconomics", QJE, February 1990, 29-42
- Loewenstein G. and Pelec, D. "Anomalies in Intertemporal Choice: Evidence and Interpretation", QJE, May 1992, 573-588
- Laibson, D. "Self Control and Saving", mimeo MIT, September 1992

2. Consumption/Saving Implications under Certainty Equivalence.

- \* Modigliani, F. "Life Cycle, Individual Thrift and the Wealth of Nations", AER, June 1986, 297-313
- \* Friedman, M. A Theory of the Consumption Function, Princeton University Press, 1957, Chapters II and III
- \* Hall, R. "Stochastic Implications of the Life Cycle Permanent Income Hypothesis : Theory and Evidence", JPE, December 1978, 971-987
- Hayashi, F. "The Permanent Income Hypothesis : Estimation and Testing by Instrumental Variables", JPE, October 1982, 895-916
- \* Summers, L. "Capital Taxation and Accumulation in a Life Cycle Model", AER, September 1981, 533-544

### 3. Consumption/Saving Implications; Precautionary Saving.

- \* Deaton, A. "Saving and Liquidity Constraints", Econometrica, September 1991, 1221-1248
- Blanchard, O. and N. G. Mankiw, "Consumption : Beyond Certainty Equivalence", AER, May 1988, 173-177
- Kimball, M. "Precautionary Saving in the Small and in the Large", Econometrica, 58, January 1990, 53-73
- Hayashi, F. "Tests for Liquidity Constraints : A Critical Survey", NBER WP 1720, October 1985
- \* Zeldes, S. "Consumption and Liquidity Constraints", JPE, April 1989, 305-346

### 4. Explaining levels of saving and wealth

Bradford, D. "Market Value versus Financial Accounting Measures of National Saving", in National Saving and Economic Performance, D. Bernheim and J. Shoven eds, NBER, 1991, 15-48

Modigliani, F. "The Role of Intergenerational Transfers and Life Cycle Saving in the Accumulation of Wealth", JEP, Spring 1988, 15-40. See also rejoinder by Kotlikoff, 41-58

Hayashi, F. J. Altonji and L. Kotlikoff, "Risk Sharing, Altruism and the Factor Structure of Consumption", NBER WP 3834, September 1991

Hurd, M. "Savings of the Elderly and Desired Bequests", AER, June 1987, 298-312

- \* Carroll, C. and L. Summers, "Consumption Growth Parallels Income Growth: Some New Evidence", in National Saving and Economic Performance, D. Bernheim and J. Shoven eds, NBER, 1991, 305-348

### 5. Explaining the stochastic behavior of consumption.

Wilcox, D. "The Construction of US Consumption Data: Some Facts and their Implications for Empirical Work", AER, September 1992, 922-941

- \* Campbell J. and G. Mankiw, "Consumption, Income and Interest rates: Reinterpreting the Time Series Evidence", NBER Macroeconomics Annual, 1989, 185-216
- \* Wilcox, D. "Social Security Benefits, Consumption Expenditure and the Life Cycle Hypothesis", JPE, April 1989, 288-304

Carroll, C. Fuhrer, J. and D. Wilcox, "Does Consumer Sentiment Affect Household Spending ? If So, Why ?", WP 168, Federal Reserve Board, September 1991

Caballero, R. "Expenditure on Durable Goods: a Case for Slow Adjustment", QJE, February 1990, 29-42

Caballero, Ricardo, "Durable Goods: an Explanation for their Slow Adjustment", mimeo MIT, August 1992

### 6. Consumption and standard CAPM's.

- \* Sharpe, W. "Portfolio Theory and Capital Markets", McGraw Hill, 45-103
- \* Blanchard, O. and S. Fischer, Lectures on Macroeconomics, MIT Press, 1989, Section 10-1
- \* Lucas, R. "Asset Prices in an Exchange economy", Econometrica, November 1978, 1429-1445
- Campbell, J. "Bond and Stock Returns in an Exchange Economy", QJE, November 1986, 785-804

### 7. Evidence, Victories, Anomalies and Puzzles

Mankiw, G. and M. Shapiro, "Risk and Return, Consumption Beta versus Market Beta", REStat, August 1986, 452-459

Frankel, J. "Portfolio Crowding-out, Empirically Estimated", QJE, 1985, 1041-1065

Mehra, R. and E. Prescott, "The Equity Premium: a Puzzle", JME, 1985, 145-162

Blanchard, O. "The vanishing Equity Premium", mimeo MIT, September 1992

- \* Shiller, R. Market Volatility, MIT Press, Chapter 4, 77-104
- Mankiw, G. "The Term Structure of Interest Rates Revisited", BPEA 1986-1, 61-110 (also comments by Goldfeld and Shiller)
- Cutler, D. Poterba, J. and L. Summers, "Speculative Dynamics", REStud, May 1991, 529-546

### 8. Fads, noise traders, herd behavior.

Shiller, R. Market Volatility, MIT Press, Chapter 1, 7-48

Cutler, D., J. Poterba and L. Summers, "Speculative Dynamics and the Role of Feedback Traders", NBER WP 3243, January 1990

Banerjee, A., "A Simple Model of Herd Behavior", QJE, August 1992, 797-818

### 9. The q theory of investment

\* Blanchard, O. and S. Fischer, Lectures on Macroeconomics, MIT Press, 1989, Sections 2-3,6-3

\* Abel, A. "Dynamic Effects of Permanent and Temporary Tax Policies in a Q model of Investment", JME, 1982, 353-373

Hayashi, F. "Tobins's Marginal Q and Average Q : A Neoclassical Interpretation", Econometrica, January 1982, 213-224

#### 10. The cost of capital, profit, the stock market and investment.

\* Jorgenson, D. and R. Hall, "Tax Policy and Investment Behavior", AER, June 1967, 391-414

Caballero, R. "On the Target Relation between Capital and its Cost: Small Sample Bias and Adjustment Costs", Columbia University WP 506, November 1990 \*

Clark, P. "Investment in the 1970's : Theory, Performance and Prediction", BPEA, 1979-1, 73-124

Pindyck, R. and J. Rotemberg, "Dynamic Factor Demand Functions Under Rational Expectations", Scandinavian Journal of Economics, 1983, 223-238

Shapiro, M. "The Dynamic Demand for Capital and Labor", QJE, August 1986, 513-542

Blanchard, O. C. Rhee, and L. Summers, "The Stock Market, Profit, Investment", mimeo MIT, July 1992

#### 11. Investment, irreversibility and uncertainty.

Pindyck, R. "Irreversibility, Uncertainty and Investment", JEL, September 1991, 1110-1152

\* Dixit, A. "Investment and Hysteresis", JEP, Winter 1992, 107-132

Bertola, G. and R. Caballero, "Irreversibility, and Aggregate Investment", NBER WP 3865, October 1991

Caballero, R., "On the Sign of Investment-Uncertainty Relationship", AER, March 1991, 279-288

Cardoso, E., "Private Investment in Latin America", mimeo Tufts University, May 1991

#### 12. Finance and Investment : MM, asymmetric information and agency problems.

\* Myers, S. and N. Majluf, "Corporate Financing and Investment Decisions when Firms have Information that Investors do not have", Journal of Financial Economics, 1984, 187-221

\* Hart, O. "Theories of Optimal Capital Structure: A Principal-Agent Perspective", Brookings Discussion Paper 91-2, March 1991

Bernanke, B. and M. Gertler, "Financial Fragility and Economic Performance", QJE, February 1990, 87-114

Hubbard, G. and A. Kashyap, "Internal Net Worth and the Investment Process: An Application to US Agriculture", JPE, June 1992, 506-534

Hoshi, T. Kashyap, A. and D. Scharfstein, "Corporate Structure, Liquidity and Investment : Evidence from Japanese Panel Data", QJE, February 1991, 33-60