

Suggested Reading List for ECON 602

1. Review of Discrete-Time Dynamical Systems

first-order, second-order (linear), non-linear, linearization techniques, brief introduction to complex dynamics, cycles, and chaos

- * Costas Azariadis *Intertemporal Macroeconomics*, Chapters 1-9.
- * W. Baumol and J. Benhabib “[Chaos: significance, mechanism, and economic applications](#)”, *Journal of Economic Perspectives*, Winter 1989

2. Overlapping Generations Model – Pure Exchange

Lessons from the simple two-period life-cycle model, demographic structure of OLG models, discussion of preferences, inter and intra-generational trade, CE = PO?; optimality, Samuelson and Classical case economies.

- * T. Sargent *Dynamic Macroeconomic Theory*, Chapter 7
- * C. Azariadis Chapters 11.1, 12
- * Paul Samuelson (1958) “[An exact consumption-loan model of interest with or without the social contrivance of money](#)”, *Journal of Political Economy* 66 (6): 467-482
- * Karl Shell (1971) “[Notes on the economics of infinity](#)” *Journal of Political Economy*, 79, 1002-12
- * D. Gale (1973) “Pure exchange equilibrium of dynamic economic models” *Journal of Economic Theory*, 6, 12-36

3. Overlapping Generations Model – Pure Exchange with Money

OLG models with money: steady state, indeterminacy, monetary equilibria, valuation of money, dynamics, cycles

- * Sargent *DMT* Chapter 7
- * David Cass and Karl Shell (1980) “[In defense of a basic approach](#)”, in *Models of Monetary Economics* ed. J. Kareken and Neil Wallace, Federal Reserve Bank of Minneapolis
- ♣ Neil Wallace (1980) “[The overlapping generations model of fiat money](#)”, in *Models of Monetary Economics* ed. J. Kareken and Neil Wallace, Federal Reserve Bank of Minneapolis. Also comments by [James Tobin](#).
- ♣ Yves Balasko and Karl Shell (1981) “The overlapping generations model II: the case of pure-exchange with money”, *Journal of Economic Theory* 24: 112-42

4. Overlapping generations models with production (and money)

Setup of the Diamond (1965) model, review of production functions, factor pricing, existence and multiplicity of equilibria in the Diamond model; steady states, stability analysis, comparative statics;

- * Azariadis Ch 13.1-13.2, 13.5, 15.4, 18, 20.
- * Peter Diamond (1965) "National debt in a neoclassical growth model" *American Economic Review*, 55, 1026-50
- Oded Galor and Harl Ryder (1989) "On the existence of equilibrium in an overlapping generations model with productive capital", *Journal of Economic Theory*, 49, 360-75.

5. Policy experiments in the overlapping generations model with production

policy experiments in the Diamond model: social security, public debt; optimal fiscal policy; optimal labor and capital tax mix; implementability constraints; time consistency and commitment;

- Casey B. Mulligan and Xavier Sala-i-Martin (2004) "Internationally Common Features of Public Old-Age Pensions, and Their Implications for Models of the Public Sector", *Advances in Economic Analysis & Policy*: Vol. 4: No. 1, [Article 4](#).
- Renstrom, T. (1999) "[Optimal dynamic taxation](#)" manuscript
- Erosa, A, and M. Gervais (2002) "[Optimal taxation in lifecycle economies](#)" *Journal of Economic Theory*, (105), 338-362

6. Endogenous growth

From exogenous to endogenous growth; notions of technical progress, balanced growth, human capital accumulation, increasing returns, learning by doing, technological spillovers, poverty traps; coordination failures

- Ljungvist and Sargent, Chapter on Growth
- R. E. Lucas (1988) "On the mechanics of economic development", *Journal of Monetary Economics*, 22(1): 3-42
- R. E. Lucas (1993) "[Making a Miracle](#)", *Econometrica*, 61(2): 251-272
- C. Azariadis and A. Drazen (1990) "[Threshold Externalities in Economic Development](#)", *Quarterly Journal of Economics*, 105(2): 501-526
- C. Azariadis (1996) "[The theory of poverty traps: what have we learned](#)", *Journal of Economic Growth*, 1(4): 449-486

7. Models of Financial Intermediation

- * D. Diamond and P. Dybvig (1983) "[Bank runs, deposit insurance, and liquidity](#)", *Journal of Political Economy*, 91, 401-19
- ♣ Bruce Smith and Valerie Bencivenga (1991) "[Financial Intermediation and Economic Growth](#)", *Review of Economic Studies* [this paper embeds the Diamond-Dybvig model in a model of endogenous growth]
- ♣ Russell Cooper and T. Ross "[Bank runs: deposit insurance and capital requirements](#)", *International Economic Review* 2002 43:1 55

- ♣ Suddipto Bhattacharya and Anjan Thakor (1993) “Contemporary banking theory”, *Journal of Financial Intermediation*, vol 3(1), October, pp. 2-50.
- ♣ Ross Levine (1997) “[Financial development and economic growth: views and agenda](#)”, *Journal of Economic Literature*, June, 688-72

8. Real Business Cycles

- * Robert Lucas (1980) [Methods and Problems in Business Cycle Theory](#); *Journal of Money, Credit and Banking*, Vol. 12, No. 4, Part 2: Rational Expectations. (Nov., 1980), pp. 696-715.
- * Chapter 1 In *Frontiers of Business Cycle Research*, Thomas F. Cooley ed, Princeton University Press, 1995
- * Robert King and Sergio Rebelo (2000) “[Resuscitating Real Business Cycles](#)” prepared for the Handbook of Macroeconomics; read sections 1-5

9. Credit Rationing and Credit Markets

- * Ben Bernanke and Mark Gertler (1989) “[Agency costs, net worth, and business fluctuations](#)”, *American Economic Review*
- ♣ Costas Azariadis and Shankha Chakraborty (1999) “[Agency Costs in Dynamic Economic Models](#)” *Economic Journal*, 109 (455), 222-41.

10. Income Distribution

- * Oded Galor and Joseph Zeira (1993) “[Income Distribution and Macroeconomics](#)”, *Review of Economic Studies*, 35-52.
- ♣ Roland Benabou (1996) “[Inequality and growth](#)”, *NBER Macroeconomics Annual*, 11-73
- ♣ Mookherjee, D. and D. Ray (2003), “[Persistent Inequality](#),” *Review of Economic Studies* 70, 369--393

11. Political Economy

The median voter paradigm; tax rates, old versus young; social security

- * A. Meltzer and S. Richard (1981) “[A Rational Theory of the Size of Government](#)”, *Journal of Political Economy*, 89: 914-927
- ♣ T. Persson and G. Tabellini (1994) “[Is Inequality Harmful for Growth?](#)”, *American Economic Review*, 84: 600-621