ECGA 7020 **Calendar Update** **December 14h 2005**

Final Review Readings and Problems:

November 30th : Choosing the right Central Banker (Romer 10.3-10.4) Chapter 10 HW-review problems include 10.7, 10.8a and 10.12. Added question: Given your answers to the above problems has Alan Greenspan been a high "c" or a high a' central banker? Explain your reasoning referring to the model results. What sort of central banker might Bernanke reveal himself to be during his first year or two as Fed Chairman? Does uncertainty regarding Professor Bernanke's objective function increase or decrease expected inflation? See also: Obstfeld and Rogoff section 9.5 pp. 634-653

December 7th : Stochastic Growth- RBC models /Asset Pricing and with a stochastic CA Example/application. (Romer questions: 4.6, 4.8a-b, 4.10a, 4.11a-c)
Obsfeld and Rogoff section 2.3 pp. 79-95. On OLG & Ramsey stochastic growth models see also Blanchard and Fischer Chapt. 7 pp. 320-31.

December 14th : Asset Pricing Models/ precautionary savings/ liquidity (Romer 7.5 & 7.6)
Questions for review: 7.7-7.10. See also Blanchard and Fischer Chapt. 6 pp. 275-91 and B&F chapter 10, pp. 505-512 on the CAPM.
Endogenous Productivity Growth Romer 3.1-3.2 (see questions 3.1 and 3.4)

The final exam will be Wednesday December 21st at 7pm in 304 Dealy (or in a nearby room).

Core questions: One question will involve a much simpler version of Romer's baseline RBC model as solved formally in question 4.11 (see also sections 3.1-3.2 for a simple model of endogenous technical change and question 3.1 from chapter 3). A second question will pursue the implications of the optimal savings under uncertainty rules discussed in the class handout based on B& F chapter 6, in part 4.4 of Romer and in Dixit (1990) chapter 11 (see the Romer Chapter 4 reading tree on the next page of this review sheet). Finally, the third question will focus on choosing the right central banker and the great moderation (see the Clarida et. al. (2000) summary posted on line).

Optional questions: Questions outside the core can be used to supplement or add to your score on the core questions (which everyone should attempt to answer). Topics for optional questions include the "equity-premium puzzle," precautionary savings and the current account and the OLG model of CA deficits developed in Obstfeld and Rogoff section 3.4 pp. 156-64 or the stochastic current account model and VARs described in Obstfeld and Rogoff section 2.3. Finally, there will be at least one question applying the Hamiltonian method to solve an optimal growth model or q theory model, similar to the midterm questions. I would like to add a question on Japan's liquidity trap, but I am not sure we will have time to review it (actually, it may fit as an optional extension of the 3rd core question on choosing the right central banker).

Check the web site for a schedule of review sessions next Monday or Tuesday. Any handouts or questions reviewed in those review sessions will also be posted on the web site.

Reading Romer's Real Business Cycle (RBC) Chapter 4 as an introduction Stochastic Growth Models and household optimization under uncertainty. Stochastic growth models have three applications: 1) explicit "policy rule" explicit solutions to determine the dynamic impact policies (and shocks) on growth, investment and employment (2) Development of testable econometric hypotheses regarding consumption, asset returns, savings and growth, etc. (e.g. Hall's consumption random walk hypothesis, excess smoothness, excess sensitivity of consumption to income, etc.)(3) Simulation of employment output and investment over the business cycle (hence the term RBC models). Though the focus of Romer's Chapter 4 is on the last of these applications, we can use at a more general introduction to stochastic growth models, with a little supplemental reading and digressions to develop some key elements a bit further (see also Parker's reading Romer Chapter 4).

Romer section 4.3 Base RBC Model (endogenous labor supply)

→ **B&F Chapter 7 OLG RBC model.**

Romer 4.4 Household Optimization under Uncertainty

→ **Dynamic Programming Solution**
Romer Problem 4.11

Romer 7.5 Household Consumption with Risky Assets (CAPM—end of lecture 1)

→ **B&F Ch 6 pp. 275-85 and Ch 10 pp. 506-12.**

Romer **7.6 Precautionary Savings (see also B&F pp. 288-90)**

Romer 4.5 Solve a special case of the RBC stochastic growth model

Romer 3.1 – 3.2 add endogenous technical change