

Economics 899: Topics in Macroeconomics

Overview

This course will cover several topics in macroeconomics: consumption and income inequality; time use; regional economics; structural transformation; firm dynamics; uncertainty shocks; and the aggregate relevance of micro shocks. The emphasis will be mostly empirical, and mostly on topics related to firms, though there will be some theoretical papers and some papers that focus on households.

The goal for the course is to generate ideas for projects for your second-year paper. Towards this goal, you will have several opportunities— both in the problem sets and in the Final Paper project— to propose and present a potential research idea. We will also discuss several datasets that have, in the past, been useful in addressing macroeconomic questions.

Lectures

Monday and Wednesday, 2:30-3:45. Van Hise, 367.

Office Hours

Tuesday 2:30-3:30, Wednesday 9:00 to 10:30, and by appointment.
7426 Sewell Social Science.

Grading

45% Final Paper and Presentation. 45% Problem Sets. 10% Class Participation.

Problem Sets

There will be six or seven problem sets given throughout the course. Some of these problem sets will ask you to work through a part of a paper covered in class. Others will be more open-ended, asking you to come up with a potential research idea, or to evaluate a recent working paper. You may work and discuss with other classmates, but you should write up your own solutions, separately.

Final Paper and Presentation

Due at the end of the semester. Not quite a full-fledged, complete product. Rather, you should have a twelve-to-fifteen page "plan" for a research paper. Within this plan, try to address the following questions:

a) What is the question that you are trying to answer? Why is this an interesting question?

b) What have been past attempts at answering this question? Is your question relevant for other literatures?

c) If applicable: What is the theoretical framework on which your question is being addressed? You can go in to some detail, here.

d) What are the data source(s) that you will use? Why is this particular dataset appropriate? If you already have access to the data, what are some patterns in the data that are relevant for your question of interest?

e) What econometric techniques will you use? Why are these techniques appropriate, and what may be some of the threats to the validity of the econometric strategy? If applicable: How does the econometric method relate to the theoretical framework that you have outlined in part (c)?

Also part of the Final Paper project will be a 20 minute presentation to the class. Depending on how many students register, these presentations will take place on December 10 and on the date on which the final is scheduled (December 16, I believe).

In terms of content, the only requirement is that the paper have an empirical component. Your evaluation will be based both on your presentation and your final paper write-up.

Preliminary Steps for the Final Paper

By October 6: Submit a two page description of the idea for your final paper, and schedule a meeting with me so that we can discuss.

By December 1: Send me a rough draft of your presentation slides. Again, schedule a meeting with me so that we can go over these slides together.

Reading List

Note: This list is still preliminary. Certain topics, especially those near the end of the semester, may be revised.

Topic 1: Preamble; Income and Consumption Inequality; Time Use (1.5 weeks. September 3-10)

Mian, Atif and Amir Sufi, 2010. "The Great Recession: Lessons from Microeconomic Data." *American Economic Review*, 100(3): 51-56.

Heathcote, Jonathan, Fabrizio Perri, and Gianluca Violante, 2010. "Unequal We Stand: An Empirical Analysis of Economic Inequality in the United States, 1967–2006." *Review of Economic Dynamics*, 13(1): 15–51.

Aguiar, Mark, and Mark Bilts, 2013. "Has Consumption Inequality Mirrored Income Inequality?" University of Rochester Working paper.

Aguiar, Mark, and Erik Hurst, 2007. "Measuring Trends in Leisure: The Allocation of Time over Five Decades." *Quarterly Journal of Economics*, 122 (3): 969-1006.

Benhabib, Jess, Richard Rogerson, and Randall Wright, 1991. "Homework in Macroeconomics: Household Production and Aggregate Fluctuations." *Journal of Political Economy*, 99(6): 1166-87.

Aguiar, Mark, Erik Hurst, and Loukas Karabarbounis, 2013. "Time Use During the Great Recession." *American Economic Review*, 103(5): 1664-1696.

Topic 2: Regional Economics (1.5 weeks. September 17-24)

Mian, Atif, Kamelesh Rao, and Amir Sufi, 2013. "Household Balance Sheets, Consumption, and the Economic Slump." *Quarterly Journal of Economics*, 128(4): 1687-1726.

Mian, Atif and Amir Sufi, 2014. "What Explains the 2007-2009 Drop in Employment?" *Econometrica*, forthcoming.

Barro, Robert and Xavier Sala-I-Martin, 1991. "Convergence Across States and Regions." *Brookings Papers on Economic Activity*, 1991, 107-82.

Blanchard, Olivier and Larry Katz, 1992. "Regional Evolutions." *Brookings Papers on Economic Activity*, 1992 (1), 1-75.

Diamond, Rebecca, 2013. "The Determinants and Welfare Implications of US Workers' Diverging Location Choices by Skill: 1980-2000." Stanford University Working paper.

Topic 3: Structural Transformation (3 weeks. September 29-October 15)

Kongsamut, Piyabha, Sergio Rebelo, and Danyang Xie, 2001. "Beyond Balanced Growth." *Review of Economic Studies*, 68(4): 869-882.

Ngai, L. Rachel and Christopher A. Pissarides, 2007. "Structural Change in a Multisector Model of Growth." *American Economic Review*, 97(1): 429-443.

Herrendorf, Berthold, Richard Rogerson, and Ákos Valentinyi, 2013. "Two Perspectives on Preferences and Structural Transformation." *American Economic Review*, 103(7): 2752-2789.

Caselli, Francesco, and Wilbur John Coleman II, 2001. "The US Structural Transformation and Regional Convergence: A Reinterpretation." *Journal of Political Economy*, 109(3): 584-616.

Karabarbounis, Loukas and Brent Neiman, 2014. "The Global Decline of the Labor Share." *Quarterly Journal of Economics*, 129(1): 61-103.

Oberfield, Ezra and Devesh Raval, 2014. "Micro Data and Macro Technology." Princeton University Working paper.

Topic 4: Adjustment Costs and Heterogeneous Business Sensitivity to Business Cycle Fluctuations (3 weeks. October 20-November 5)

- Davis, Steven J., John Haltiwanger, Ron Jarmin and Javier Miranda, 2007. "Volatility and Dispersion in Business Growth Rates: Publicly Traded versus Privately Held Firms." *NBER Macroeconomics Annual*, 107-155.
- Melitz, Marc, 2003. "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity." *Econometrica*, 71(6): 1695-1725. Sections 2-4 only.
- Ghironi, Fabio, and Marc J. Melitz, 2005. "International Trade and Macroeconomic Dynamics with Heterogeneous Firms." *Quarterly Journal of Economics*, 120(3): 865-915.
- Kehrig, Matthias, 2011. "Are Recessions Cleansing or Sullyng? Evidence from the Cyclicity of Productivity Dispersion." UT-Austin Working Paper.
- Caballero, Ricardo J. and Mohamad L. Hammour, 1994. "The Cleansing Effect of Recessions." *American Economic Review*, 84(5): 1350-1368.
- Caballero, Ricardo J. and Eduardo Engel, 1999. "Explaining Investment Dynamics in U.S. Manufacturing: A Generalized (S, s) Approach." *Econometrica*, 67(4): 783-826.
- Khan, Aubhik, and Julia K. Thomas, 2008. "Idiosyncratic shocks and the role of nonconvexities in plant and aggregate investment dynamics." *Econometrica*, 76(2): 395-436.
- Cooper, Russell W., and John C. Haltiwanger. "On the Nature of Capital Adjustment Costs." *Review of Economic Studies*, 73(3): 611-633.
- Bachman, Rudiger and Christian Bayer, 2014. "Investment Dispersion and the Business Cycle." *American Economic Review*, 104(4): 1392-1416.

Topic 5: Uncertainty Shocks (2 weeks. November 10-19)

- Bloom, Nick, 2009. "The impact of uncertainty shocks." *Econometrica*, 77(3): 623-685.
- Baker, Scott, Nick Bloom, and Steven J. Davis, 2013. "Measuring Economic Policy Uncertainty." University of Chicago Working Paper.
- Bachman, Rudiger, and Christian Bayer, 2013. "'Wait-and-See' Business Cycles?" *Journal of Monetary Economics* 60:(6), 704-719.
- Bachmann, Rudiger, Steffen Elstner, and Eric R. Sims. 2013. "Uncertainty and Economic Activity: Evidence from Business Survey Data." *American Economic Journal: Macroeconomics*, 5(2): 217-49.

Topic 6: The Relevance of Micro Shocks for Aggregate Fluctuations; Business Networks. (2.5 weeks. November 24-December 8)

- Gabaix, Xavier, 2011. "The Granular Origins of Aggregate Fluctuations." *Econometrica*, 79(3): 733-772.

- Carvalho, Vasco M. and Xavier Gabaix, 2013. "The Great Diversification and Its Undoing." *American Economic Review*, 103(5): 1697-1727.
- Davis, Steven J. and James A. Kahn, 2008. "Interpreting the Great Moderation: Changes in the Volatility of Economic Activity at the Macro and Micro Levels." *Journal of Economic Perspectives*, 22(4): 155-80.
- Long, John B. and Charles I. Plosser, 1983. "Real Business Cycles." *Journal of Political Economy*, 91(1): 39-69.
- Su, Hsuan-Li, "Financial Frictions, Capital Misallocation and Input-Output Linkages." University of Wisconsin-Madison Working Paper.
- Foerster, Andrew, Pierre-Daniel Sarte, and Mark Watson, 2011. "Sectoral vs. Aggregate Shocks: A Structural Factor Analysis of Industrial Production." *Journal of Political Economy*, 119(1): 1-38.

Misconduct Statement

Academic Integrity is critical to maintaining fair and knowledge based learning at UW Madison. Academic dishonesty is a serious violation: it undermines the bonds of trust and honesty between members of our academic community, degrades the value of your degree and defrauds those who may eventually depend upon your knowledge and integrity.

Examples of academic misconduct include, but are not limited to: cheating on an examination (copying from another student's paper, referring to materials on the exam other than those explicitly permitted, continuing to work on an exam after the time has expired, turning in an exam for regrading after making changes to the exam), copying the homework of someone else, submitting for credit work done by someone else, stealing examinations or course materials, tampering with the grade records or with another student's work, or knowingly and intentionally assisting another student in any of the above. Students are reminded that online sources, including anonymous or unattributed ones like Wikipedia, still need to be cited like any other source; and copying from any source without attribution is considered plagiarism.

The Dept. of Economics will deal with these offenses harshly following UWS14 procedures (<http://students.wisc.edu/saja/misconduct/UWS14.html>):

1. The penalty for misconduct in most cases will be removal from the course and a failing grade.
2. The department will inform the Dean of Students as required and additional sanctions may be applied.
3. The department will keep an internal record of misconduct incidents. This information will be made available to teaching faculty writing recommendation letters and to admission offices of the School of Business and Engineering.

If you think you see incidents of misconduct, you should tell your instructor about them, in which case they will take appropriate action and protect your identity. You could also choose to contact our administrator (Tammy Herbst-Koel Therbst@wisc.edu) and your identity will be kept confidential.

Grievance Procedure

The Department of Economics has developed a grievance procedure through which you may register comments or complaints about a course, an instructor, or a teaching assistant. The Department continues to provide a course evaluation each semester in every class.

If you wish to make anonymous complaints to an instructor or teaching assistant, the appropriate vehicle is the course evaluation. If you have a disagreement with an instructor or a teaching assistant, we strongly encourage you to try to resolve the dispute with him or her directly. The grievance procedure is designed for situations where neither of these channels is appropriate. If you wish to file a grievance, you should go to room 7238 Social Science and request a Course Comment Sheet. When completing the comment sheet, you will need to provide a detailed statement that describes what aspects of the course you find unsatisfactory. You will need to sign the sheet and provide your student identification number, your address, and a phone where you can be reached. The Department plans to investigate comments fully and will respond in writing to complaints.

Your name, address, phone number, and student ID number will not be revealed to the instructor or teaching assistant involved and will be treated as confidential. The Department needs this information, because it may become necessary for a commenting student to have a meeting with the department chair or a nominee to gather additional information. A name and address are necessary for providing a written response.

Regrade Policy

Deadline: One week after exam was returned to class (late requests will not be considered)

Math Errors: If there was an arithmetic error in adding up points on your exam, let us know right away, and we will record the correct grade. This doesn't constitute a regrade request. Just write a brief note on the cover sheet and give it to the professor or TA.

Rationale for Regrade Policy: The regrade procedure is intended to correct serious errors in grading. It is not intended as a opportunity to argue about each judgment call made by the graders. We agree that graders sometimes take off 1-2 points too many here and there, but we believe that they also give you 1-2 points too many just as often. When we regrade exams, we sometimes disagree with the exact points awarded on each question by the graders, but the total grade usually comes out the same. Our overall experience with regrade requests is that very few of them lead to a change in an exam grade, and an even smaller percentage have any effect on the final grade for the course. However, significant mistakes in grading do occur, if rarely. If you sincerely feel that your exam was unfairly graded, we will look it over carefully. In that case, we reserve the right to regrade the entire exam, which may result in either an increase or a decrease in your grade.

How to Request a Regrade:

If you feel that a regrade request is justified, print out the Regrade Request Form, fill it in, and turn it with your exam to your professor/TA as instructed . We always look at all the regrades at once so that we can compare them with the key and with each other. We think it is fairer to do it this way so we will not discuss your regrade in person.

Some Cautions: When calculating the final letter grades for the course, we try to give extra consideration to each student who is near a cut-off, to see if there is some justification for bumping the letter grade up a notch. We will keep a record of all regrade requests, and students who have asked for this extra consideration during the course of the semester may not receive additional consideration at the time that final grades are assigned. Unfortunately, there have been several instances in the past where students have modified an answer after the exam had been graded, and then submitted the exam for a regrade. Because of this, we will not consider regrades of exams that corrected with white-out or other obvious signs of after exam correction. A random sample of exams are photocopied before they are returned. Any indication that a regrade has been requested for a modified exam will be considered academic misconduct , and appropriate disciplinary action will be taken.

What Merits a Regrade: The following are the usual circumstances that may lead to an increase in points:

- Your answer is really the same as the one on the answer key, but the grader didn't

realize it.

Your explanation should make it clear why you believe your answer is the same.

- Your answer is different from the one provided on the answer key, but your answer is also correct.

Your explanation should make it clear that you have read the answer key, and why you think that your answer is equally good.

What Doesn't Merit a Regrade: The following are not valid reasons for regrades:

- *"Most of what I wrote is correct, so I think I deserve more partial credit."*

Partial credit is given equally for all students who write a particular answer, so it would not be fair to give you more points for this without adding points to all students who wrote the same answer.

- *"I wrote so much, and the grader didn't notice that the correct answer is buried somewhere within this long paragraph."*

You will lose points if the correct answer is accompanied by incorrect information or by so much irrelevant information that it gives the impression that you didn't know the answer, and were just writing down everything you could think of on this topic.

Acknowledgement: this page was prepared using rules widely applied by professors in all disciplines/universities and wording borrowed extensively from Biology C2006 / F2402 at Columbia University (http://www.columbia.edu/cu/biology/courses/c2006/regrade_requests.html)