

# Macroeconomics and Behaviour

2014 Summer Term

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## 1 Introduction: Issues in Behavioural Macroeconomics

### 1.1 Macroeconomics

- Economic growth
- Business cycles
- Nominal rigidities
- Unemployment
- Saving and investment
- Inflation and monetary policy
- Fiscal policy and budget deficits

### 1.2 Behaviour

- Akerlof (2002) “Behavioral Macroeconomics and Macroeconomic Behavior”
- Camerer and Loewenstein (2004) “Behavioral Economics: Past, Present, Future”
- Crawford (2013) “Boundedly Rational versus Optimization-Based Models of Strategic Thinking and Learning in Games”
- Fudenberg (2006) “Advancing beyond *Advances in behavioral economics*”
- Harstad and Selten (2013) “Bounded-Rationality Models: Tasks to Become Intellectually Competitive.”
- Mullainathan and Thaler (2001) “Behavioral Economics”
- Rabin (2013) “Incorporating Limited Rationality into Economics”

## 2 Economic growth

### 2.1 Convergence debate

- Baumol (1986) “Productivity Growth, Convergence, and Welfare: What the Long-run Data Show,”
- BLS (2012) “International Comparisons of GDP per Capita and per Hour, 1960–2011”

- Sala-i-Martin (2006) “The World Distribution of Income: Falling Poverty and ... Convergence, Period”
- World Bank (2014) “World Development Report 2014”

## **2.2 Theory**

- Aghion and Howitt (1992) “A Model Of Growth Through Creative Destruction”
- Galor (2005) "From Stagnation to Growth: Unified Growth Theory"
- Jones (1995) “R&D-Based Models of Economic Growth”
- Rebelo (1991) “Long-Run Policy Analysis and Long-Run Growth”
- Romer (1986) “Increasing Returns and Long-Run Growth”
- Romer (1990) “Endogenous Technological Change”
- Segerstrom (1998) “Endogenous Growth without Scale Effects”
- Solow (1956) “A Contribution to the Theory of Economic Growth“ (see Aghion and Howitt, 1998, ch. 1.1)
- Wälde (1999) “A Model of Creative Destruction with Undiversifiable Risk and Optimising Households”
- Wälde (2012) “Applied Intertemporal Optimization”

## **2.3 Towards behavioural growth**

- Foellmi, Rosenblatt-Wisch, Schenk-Hoppé and Reiner (2011) “Consumption paths under prospect utility in an optimal growth model”
- Fudenberg and Levine (2006) “A Dual Self Model of Impulse Control.”

# **3 Business cycles**

## **3.1 Some numbers on business cycles**

- Eurocoin (2014)
- GDP per capita OECD countries 1980 - 2010
- Jones (1995) “Time series test of endogenous growth models” (fig. I)
- Marczak and Beisinger (2013) “Real wages and the business cycle in Germany”
- NBER’s Business Cycle Dating Committee (2010)
- Schirwitz (2009) “A comprehensive German business cycle chronology”
- Wälde and Woitek (2004) “R&D expenditure in G7 countries and the implications for endogenous fluctuations and growth”

### **3.2 The real business cycle approach**

- Kydland and Prescott (1980) “A Competitive Theory of Fluctuations and the Feasibility and Desirability of Stabilization Policy“
- Kydland and Prescott (1982) “Time to Build and Aggregate Fluctuations“
- Wälde (2012) “Applied Intertemporal Optimization“ (ch. 8.1)

### **3.3 Natural volatility**

- Francois and Lloyd-Ellis (2003). “Animal Spirits Trough Creative Destruction“
- Wälde (2005) “Endogenous Growth Cycles“
- Wälde (2005) “Introduction to natural volatility”

### **3.4 Sunspot cycles**

- Benhabib and Farmer (1994). “Indeterminacy and Increasing Returns“
- Benhabib and Nishimura (1998) “Indeterminacy and Sunspots with Constant Returns“

## **4 Nominal rigidities**

- Romer (2011) Advanced macroeconomics 4th edition

## **5 Unemployment**

- Akerlof and Yellen (1988) “Fairness and Unemployment”
- Burdett and Mortensen (1998) “Wage Differentials, Employer Size, and Unemployment”
- Cahuc and Zylberberg (2004) Labor Economics
- Fehr and Schmidt (1999) “A Theory of Fairness, Competition, and Cooperation“
- Moen (1997) “Competitive search equilibrium”
- Paserman (2008) “Job Search and Hyperbolic Discounting: Structural Estimation and Policy Evaluation“
- Pissarides (1985) “Short-run Equilibrium Dynamics of Unemployment Vacancies, and Real Wages”
- Rogerson, Shimer and Wright (2005) “Search-Theoretic Models of the Labor Market: A Survey”
- Solow (1979) “Another Possible Source of Wage Stickiness”

## 6 Saving and investment

### 6.1 Saving and retirement

- Laibson (1997) “Golden Eggs and Hyperbolic Discounting“
- Strotz (1955/56) “Myopia and Inconsistency in Dynamic Utility Maximization“
- Thaler and Benartzi (2004) “Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving”

### 6.2 Asset prices

- Barberis, Huang and Santos (2001) “Prospect Theory and Asset Prices”
- Benartzi and Thaler (1995) “Myopic Loss-Aversion and the Equity Premium Puzzle“
- Caplin Leahy (2004) “Psychological Expected Utility Theory And Anticipatory Feelings“
- Loomes and Sugden (1982) “Regret Theory: An Alternative Theory of Rational Choice under Uncertainty“
- Loomes and Sugden (1986) “Disappointment and Dynamic Consistency in Choice under Uncertainty“
- Mehra and Prescott (1985) "The Equity Premium A Puzzle"

## 7 Inflation and monetary policy

- Fehr and Tyran (2001) “Does Money Illusion Matter?“
- Kőszegi and Rabin (2006) “A model of reference-dependent preferences”
- Romer (2011) Advanced macroeconomics 4th edition
- Shafir Diamond Tversky (1997) “Money Illusion“

## 8 Fiscal policy and budget deficits

- Barro (1974) “Are government bonds net wealth?“
- Barro (1979) “On the Determination of the Public Debt“
- de Grauwe (2009) Economics of Monetary Union 8th edition
- Lane (2012) “The European Sovereign Debt Crisis“
- Uribe (2006) “On Overborrowing“

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- (2001): “Prospect Theory and Asset Prices,” *Quarterly Journal OF Economics*, 116(1), 1–53.
- (2004): “Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving,” *Journal of Political Economy*, 112(1), 164–187.
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