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NORTHWESTERN UNIVERSITY  
411:2 MACROECONOMICS  
Winter 2021

**Martin Eichenbaum**

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**COURSE OBJECTIVES**

The goals of this course are to provide you with an introduction to basic issues in business cycle theory

**TEXTBOOK**

You should have access to a copy of Ljungqvist and Sargent, 'Recursive Macroeconomic Theory', MIT press. The references below pertain to the fourth edition.

**EVALUATION**

The grade in this course will be based on three components: (i) a midterm (45%), (ii) a final exam (45%); (iii) a set of assignments to be distributed throughout the quarter (10%).

The midterm (the exam for my half of the course) will be on Feb 1.

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My midterm exam will be on Fri Feb 14 2020.

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TEACHING ASSISTANT: Laura Murphy, Office Hours: Thursday, 3:00 - 5:00 pm.  
My office hours, Tues, 5:00 – 6:00 as well as by appt.

**COURSE OUTLINE**

1. *Asset pricing and risk in a neoclassical setting*

- a. Ljungqvist and Sargent, Ch. 13, Asset Pricing Theory (don't show equivalence between sequence of markets and  $t=0$ ).
- b. John Cochrane, Asset Prices, Ch. 2 (available on course web page).  
[Application](#), Ljungqvist and Sargent, Ch.10, Ricardian Equivalence.

2. *The Real Business Cycle Model, including labor market and financial market frictions (with numerical applications)*

- a. Class Notes.
  - b. Eichenbaum, Martin, Sergio Rebelo and Mathias Trabandt, 2020. [The Macroeconomics of Epidemics](#).
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- c. *Ljungqvist, Lars, and Thomas J. Sargent. 29.3, A Matching Model*
- d. *L. Christiano, M. Eichenbaum and M. Trabandt, 'Wage Inertia is Fundamental', manuscript*

3. *The Ramsey Approach to Optimal Policy*

- a. Ljungqvist and Sargent, Ch. 16, Optimal Taxation with Commitment.

4. *Selected Monetary Policy Issues, Classical Perspectives*

- a. Ljungqvist and Sargent, Section 24.7.
- b. Ljungqvist and Sargent, Ch. 27, Fiscal - Monetary Theories of Inflation.
- c. Jordi Gali, Chapter 2, *Monetary Policy, Inflation and the Business Cycle*, manuscript. Available on course web page.