



EC 504
MACROECONOMICS II
SPRING 2021

Instructor: [Orhan Torul](#)

Date and Location: Tuesday & Thursday 10:00-11:50 over [Zoom](#)

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Office Hours: Tuesday 13:00-13:40 *or* by appointment over [Zoom](#)

Course Website: [Boğaziçi University Moodle Pages](#)

Teaching Assistant: [Nizam Melikşah Demirtaş](#)

Course Objectives

EC504 is the second graduate-level course of the macroeconomics sequence in the master of arts program in economics. This course intends to accomplish two goals. First, it aims to familiarize students with advanced economic tools, e.g., dynamic programming under uncertainty, which we will cover throughout our discussion over theoretical and empirical foundations of consumption. Second, it aims to cover several modern economic questions that cannot be addressed using the representative-agent paradigm. For this purpose, we will study heterogeneous-agent models to discuss several issues, such as the determination of prices under the presence of incomplete markets and politico-economic equilibrium over tax rates.

Requirements

Satisfactory grade from EC 503 Macroeconomics I is the official prerequisite of this course.

Required Textbook

“Recursive Macroeconomic Theory”, 4th Edition by Lars Ljungqvist and Thomas J. Sargent, MIT Press, 2018. (L+S hereafter)

Grading Policy

Your letter grade will be based on your grades from problem sets, class participation, a midterm exam, a cumulative final exam and a paper presentation (accompanied by a referee report at the end of the semester). The weights are as follows:

- **Problem Sets:** 10%
- **Class Participation:** 5%
- **Midterm Exam:** 35%
- **Final Exam:** 35%
- **Paper Presentation + Referee Report:** $7.5\% + 7.5\% = 15\%$

As a reminder, the standard catalog grading protocol accepted at Boğaziçi University is as follows:

Grade Scale			
Letter Grade	Interpretation	Weight	Grade Percentage
AA	Excellent	4.0	90%
BA	Good-Excellent	3.5	85-89%
BB	Good	3.0	80-84%
CB	Passing-Good	2.5	75-79%
CC	Passing	2.0	70-74%
F	Failed	0.0	0-59%

Yet, I reserve the right to revise the criteria for letter grades depending on the overall performance of the class.

Last day for withdrawal from the course is **May 20, 2021, Thursday**.

- **Midterm Exam (*Tentative Date: , May 7, 2021, Friday*):** The midterm exam could either be an in-class or an online (over Zoom) exam, depending on the circumstances concerning the COVID pandemic. Regardless, it is imperative for you to be present on time since extra time will not be given for late arrivals.
- **Final Exam (*Tentative Date: Late June-Early July, 2021, TBA*):** The final exam will be comprehensive and cumulative, with a higher weight on the post-midterm topics. The final exam could either be an in-class or an online (over Zoom) exam too, depending on the circumstances. Timeliness is expected again since extra time will not be given for late arrivals.
- **Paper Presentation and Referee Report (*Tentative Date: Late June, 2021, TBA*):** All students are required to choose a paper from a list of contemporary studies on the frontier, some examples of which I will post on the course website. You will present this paper in

class or over Zoom during a special session to be held at the end of the semester. You will have to submit a **detailed referee report** along with your presentation. For this assignment, you can work alone or in pairs depending on your choice.

- **Attendance:** Regular attendance is required and *very strongly* recommended. Students who do not attend classes regularly may not get lower credit due to poor class participation.
- **Problem Sets:** There will be several number of problem sets (plausibly around 6 or 7), all of which will be graded (each with equal same weight). Problem sets will be posted online, and their due dates will be announced along with problem sets. Please check the course web page frequently so as not to miss deadlines.
- **Make-up Exam Policy:** All students are required to attend both the midterm and final exams. Make-up exams are going to be granted only to those students whose excuses comply with the University policy. If you believe you are eligible to take a make-up exam, please inform me and provide the appropriate documentation as soon as possible, no later than one week (7 calendar days) after the exam. Make-up exam requests should be directed to me in person with proper documentation (together with a clear written explanation of the reason of absence and valid excuse documents).
- **Exam Re-grade Policy:** If, after going over your exam and the exam solutions, you believe some of your solutions were more correct than originally judged to be, you may submit, in writing, an exam re-grade request. Your re-grade request must specify which solutions(s) you believe were not graded appropriately and a substantive explanation for why you believe your solutions is more correct than originally judged. Your entire exam is subject to re-grade, thereby raising the possibility of a lower overall grade. Exam re-grade requests should be submitted no later than one week (7 calendar days) after exams are announced, and this deadline applies even if you are not present in class the day graded exams are announced (it is your responsibility to be responsive to your graded exams in a timely manner).

Problem Sessions

There will be weekly/biweekly problem sessions held by your teaching assistant (dates and locations to be announced). Attendance is very strongly recommended although not required.

Communication

E-mail will be used as the primary means of communication outside the classroom, and I will be sending e-mails whenever necessary to inform you on updates regarding the course. Please make sure that the e-mail address you have at the Registrar's Office (and Moodle) is up-to-date so that you will not miss any of the announcements.

Accommodations

Students who require special accommodations for exams must get in touch with me within the first two weeks of class.

Academic Integrity

The graduate program of the Department of Economics is conducted within the framework of the Student Discipline Regulations by the Council of Higher Education (CoHE, Yükseköğretim Kurulu, YÖK in Turkish), and rules accepted by the Boğaziçi University Committee on Ethical Conduct.

For student discipline regulations by the TCHE (YÖK), see (in Turkish): bit.ly/yokdisiplinmetni

For the ethics code accepted by Boğaziçi University, see bit.ly/bounethics

EC 103 Orientation to Economics course also discusses basics of integrity. For a brief refresher, see bit.ly/bounplagiarism

Copyrights

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Tentative Course Outline

The Life Cycle/Permanent Income Hypothesis and Variants: Theory

- L+S: Chapter 1; Chapter 2 (you can skim Sections 2.5, 2.7, 2.8); Chapter 3; Chapter 4; Chapter 5 (you can skim Sections 5.4 & 5.6); Chapter 8 (you can skim Sections 8.7–8.12); Chapter 17; Chapter 18 (you can skim sections 18.8–18.12)
- Deaton, Angus (1991), "Saving and Liquidity Constraints," *Econometrica*, 59, 1221-1248.
- Zeldes, Steven (1989), "Optimal Consumption with Stochastic Income: Deviations from Certainty Equivalence," *Quarterly Journal of Economics*, 104, 275-298.

Consumption: Empirical Evidence

- Agarwal, Sumit; Liu, Chunlin; and Nicholas Souleles (2007), “The Reaction of Consumer Spending and Debt to Tax Rebates? Evidence from Consumer Credit Data,” *Journal of Political Economy*, 115(6), 986-1019.
- Aguiar, Mark and Eric Hurst (2005), “Consumption Versus Expenditure,” *Journal of Political Economy*, 113 (5), 919-948.
- Aguiar, Mark and Eric Hurst (2007), “Life-Cycle Prices and Production,” *American Economic Review*, 97(5), December, 1533-1559.
- Card, David; Chetty, Raj and Andrea Weber (2007), “Cash-on-Hand and Competing Models of Intertemporal Behavior: New Evidence from the Labor Market,” *Quarterly Journal of Economics*, November, 1511-1560.
- Cochrane, John (1991), “A Simple Test of Consumption Insurance,” *Journal of Political Economy*, 99 (5), October, 957-975.
- Hall, Robert (1978), “Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence,” *Journal of Political Economy*, 86, 971-987.
- Hsieh, Chang-Tai (2003), “Do Consumers React to Anticipated Income Changes? Evidence from the Alaska Permanent Fund,” *American Economic Review*, 93 (1), 397-405.
- Scholz, John Karl; Seshadri, Ananth; and Surachai Khitatrakun (2006), “Are Americans Saving ‘Optimally’ for Retirement?” *Journal of Political Economy*, 114, 607-43.
- Shea, John (1995), “Union Contracts and the Life Cycle-Permanent Income Hypothesis,” *American Economic Review*, 86, 186-200.
- Stephens, Melvin (2003). “3rd of the Month’: Do Social Security Recipients Smooth Consumption Between Checks?” *American Economic Review*, 93(1), 406-422.
- Wilcox, David (1989), “Social Security Benefits, Consumption Expenditure and the Life-Cycle Hypothesis,” *Journal of Political Economy*, 97, 288-303.
- Zeldes, Stephen P. (1989), “Consumption and Liquidity Constraints: An Empirical Investigation,” *Journal of Political Economy*, 97, 305-346

Asset Pricing: A Basic Introduction

- Barro, Robert (2006), “Rare Disasters and Asset Markets in the Twentieth Century,” *Quarterly Journal of Economics*, 121, 823-866.
- Brunnermeier, Markus and Stefan Nagel (2008), “Do Wealth Fluctuations Generate Time-Varying Risk Aversion? Micro-Evidence on Individuals’ Asset Allocation,” *American Economic Review*, 98 (3), 713-736.

- Kocherlakota, Narayana (1996), "The Equity Premium: It's Still a Puzzle," *Journal of Economic Literature*, 34, 42-71.

Macroeconomic Models with Incomplete Markets

- Aiyagari, S. Rao, (1994), "Uninsured Idiosyncratic Risk and Aggregate Saving," *Quarterly Journal of Economics*, 109, 659-684.
- Heathcote, Johnathan; Storesletten, Kjetil and Gianluca Violante (2009), "Quantitative Macroeconomics with Heterogeneous Households," *Annual Review of Economics*, 1, 319-354.
- Huggett, Mark (1993), "The Risk-Free Rate in Heterogeneous-Agent Incomplete-Insurance Economies," *Journal of Economic Dynamics and Control*, 17, 953-969.
- Krusell, Per and Anthony A. Smith Jr., (1998), "Income and Wealth Heterogeneity in the Macroeconomy," *Journal of Political Economy*, 106(5), 867-896.
- Rios-Rull, Jose-Victor (1995), "Models with heterogeneous agents," *Frontiers of Business Cycle Research*, Princeton University Press, 98-125.

Political Economy of Economic Growth

- Meltzer, Allan H. and Scott F. Richard (1981), "A Rational Theory of the Size of Government," *Journal of Political Economy*, 89, 914-27.
- Persson, Torsten and Guido Tabellini (1994), "Is Inequality Harmful for Growth?," *American Economic Review*, 84, 600-621.

Miscellaneous: Cross-Sectional Facts and Economic Inequality

- Alesina, Alberto, Edward Glaeser (2004), "Fighting Poverty in the U.S. and Europe A: World of Difference", Oxford, UK: Oxford University Press.
- Alesina, Alberto, Edward Glaeser and Bruce Sacerdote (2005), "Work and Leisure in the United States and Europe: Why So Different?," *NBER Macroeconomics Annual*, 20, 1-64.
- Alesina, Alberto, and George-Marios Angeletos (2005), "Fairness and Redistribution," *American Economic Review*, 95, 960-980.
- Bénabou, Roland and Jean Tirole (2006), "Belief in a Just World and Redistributive Politics." *The Quarterly Journal of Economics*, 121, 699-746.
- Blundell, Richard and Ben Etheridge (2010), "Consumption, Income and Earnings Inequality in Britain," *Review of Economic Dynamics*, 13(1), pages 76-102.
- Domeij, David and Martin Floden (2010), "Inequality Trends in Sweden 1978-2004," *Review of Economic Dynamics*, 13(1), 179-208.

- Fuchs-Schuendeln, Nicola; Krueger, Dirk and Mathias Sommer (2010), “Inequality Trends for Germany in the Last Two Decades: A Tale of Two Countries” *Review of Economic Dynamics*, 13(1), 03-132.
- Heathcote, Jonathan; Perri, Fabrizio and Giovanni L. 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.
- Jappelli, Tullio and Luigi Pistaferri (2010), “Does Consumption Inequality Track Income Inequality in Italy?” *Review of Economic Dynamics*, 13(1), 133-153.
- Pijoan-Mas, Josep and Virginia Sanchez-Marcos (2010), “Spain is Different: Falling Trends of Inequality,” *Review of Economic Dynamics*, 13(1), 154-178.
- Piketty, Thomas and Gabriel Zucman (2013), “Capital is Back: Wealth-Income Ratios in Rich Countries, 1700-2010,” CEPR Discussion Papers 9588.
- Tamkoç, M. Nazım and Torul, Orhan (2020), “Cross-Sectional Facts for Macroeconomists: Wage, Income and Consumption Inequality in Turkey”, *Journal of Economic Inequality*, 18(2), 239–259.
- Torul, Orhan (2020), “Education in a Heterogeneous-Agent Economy: Revisiting the Transatlantic Differences”, *Journal of Human Capital*, 14(2), 165-216.
- Torul, Orhan and Öztunalı Oğuz (2018), “On Income and Wealth Inequality in Turkey”, *Central Bank Review*, 18 (3), 95–106.