Advanced Macroeconomics Courses for PhD Candidates @ The Department of Economics Of Addis Ababa University

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Advanced and Contemporary Topic in Macroeconomics I & II: Course Description

At the Department of Economics, College of Business and Economics of the Addis Ababa University, I offer two courses on Advanced Macroeconomics and Contemporary topics in Macroeconomics. The course aims at equipping candidates with advanced and African related topics on contemporary macroeconomics. This is the state of the art macroeconomics course offered at the country’s prime institution. The content of our course is similar to the state of the art in any university in Advanced Economies. In fact for African students the courses at AAU has a unique advantage of relating the course to contemporary macroeconomic issues in Africa. In that sense, for African students our courses at the Department of Economics of AAU are better than similar courses offered in prime universities in Advanced economies. Thus I encourage Ethiopian and other African students to go for our course for their advanced studies in macroeconomics. This booklet offers the details of these two semester courses. Further information and lecture materials are also available at my web site www.Alemayehu.com.
Advanced Macroeconomics I

Lecture: @ FBE Campus – Eshetu Chole Building, Room 306.

Lecture 1: The Solow-Swan/Neoclassical Growth Model [Exogenous Saving]
Lecture 2: The Ramsey-Cass-Koopman Growth Model [Endogenous Saving]
Lecture 3: The Diamond/OLG Model
Lecture 4: The Endogenous Growth Models
Lecture 5: Real Business Cycle Models
Lecture 6: The Political Economy of Growth (in Ethiopia and Africa at large)
Lecture 7: Consumption
Lecture 8: Investment
Lecture 9*: The Labour Market [*Optional Depends on available time]

Main Readings [* Very Important]


*Alemayehu Geda (2008) The Political Economy of Growth in Ethiopia (In the same book above/Nudulu et al, Vol 1, Ch 4


**Relevant Classic Articles**


- Frankel (1962)


Additional articles are given on the Course CD that Contains the lecture slides.

Course Assessment

A) Each Candidate will write a review of literature in 4/5 topical areas of the course based on 7 to 10 latest working papers and Presentation. (20%)

B) There will be bi-weekly/Weekly drill on each of the lectures (to be handled by a teaching assistant) (25%)

C) A Group paper on African Business Cycle (1 or 2 groups) (20%)
D) Class Presentation and participation (10%)
E) Final Exam (30%)
F) Individual term paper on growth in Ethiopia or Africa on the following topics, 25 pages or less
   [Double space 12 font] in a model of AER/JPE, Journal of African Economies etc (30%)
   a) A Solow-Swan Model and/ or Human Capital Augmented Solow-Swan Model for Ethiopia
   b) Ramsey-Cass-Koopman Model for Ethiopia
   c) Endogenous Growth Model for Ethiopia
   d) The Political Economy of Growth in Ethiopia: Politics, Institutions and Growth
   e) Modelling Investment (or Public Private Investment Interaction) in Ethiopia
   f) Modelling Consumption/Saving in Ethiopia
   g) The Labour Market in Ethiopia/Africa

Course Schedule

• 3 to 6 hours lecture per week
• To be worked out/ Flexible Modular

Lecture Location: FBE Campus, Eshetu Chole Building, Room 306
Lecture: @FBE Campus – Eshetu Chole Bld. Room 306


[Scarth for IS/LM; AD-AS Romer, Ch 5; Heijira, Ch 12; Weeks 2013, Alemayehu 2002 and Gils (1991) article for critics]

Lecture 2: The New Keynesian Macroeconomics/the NK DSGE Models

2.1 Micro Foundation (Incomplete Nominal Adjustment) of New Keynesian Macroeconomics

- Lucas Imperfect Information model; Mankiw’s Menu Cost, Real Rigidities; Coordination failure; Imperfect competition/staggered price adjustment

- [Romer Ch 6, 4th edn; Heijira Ch 12]

2.2 New Keynesian Dynamic Stochastic General Equilibrium Models/DSGE

Time Dependent DSGE Models:
- The Fisher [Predetermined Price] Model
- The Taylor [Fixed Price] Model
- The Calvo [Stochastic Price] Model & State Dependent DSGE Models:
- The Caplin-Spulber &
- The Daniziger-Golosov-Lucas Models.

[Romer Ch 7, 4th edn; Heijira Ch 12;]

Lecture 3: Open Economy Macroeconomics: Theory

3.1 Open Economy Theory

Open economy Theory and Modelling
([Begins with Scarth/Murshed & goes to Obstfeld ch 18 2);]

3.2 The Foreign Exchange Market/Exchange Rate Economics

Exchange Rate Determination Theories
- The Over-Shooting Model
  Israd, 1995; & Obstfeld, ch 4. & 10
Lecture 4: African Open Economy Macroeconomics & The Macroeconomics of Capital Flows
- Aid/FDI/Capital Flight; Dutch Disease. Fiscal Response,
- Global models, and Place of Africa in the World
- African Economic Engagement with China and the Emerging South
(Alemayehu 2002, Ch 3, 4, 5, 6: & Alemayehu (2013) on BRICSX

Lecture 5: Money, Inflation, Monetary Policy & Asset Price Models
5.1 Money, Inflation and Monetary Policy
- Romer, Ch 10; Heijira Ch 11; Hibbs lectures;
  Vahagan’s lectures /
- Money DD and SS; Monetary Policy, & Inflation
- Empirical Application: Alemayehu & Kibrom on
  Inflation modelling in Ethiopia [A Structuralist Inflation Model]

5.2 Asset Price Models

Lecture 6: Budget deficit and Fiscal Policy (Romer, Ch 11)
Lecture 7: Structuralist/Post Keynesian Macroeconomics: An Overview
Lecture 8: Applied African Macroeconometric Policy Modelling

Main Readings [* Very Important]


*Murshed, Mansoob (1997) _Open Economy Macroeconomics._

Relevant Classic Articles

The reference in this section is based on AERC PhD program course outline, in the preparation of which I was involved. Unlike other western university such as MIT/Harvard or Oxford/Cambridge which religiously follow Obsfeld &Rogoff’s book, the AERC’s African focused approach is most relevant for Africa; & at the same time you will also get the flavour of what Western Universities teach from the course.

General and African Open Economy Macroeconomics


*Agenor and Montiel Chs. 6 and 7


*Alemayehu Geda (2013) ‘African Economic Engagement with the Emerging South/BRICX’ (Background Study for African Export Import Bank, Cairo.)


*The Economist (September 14, 2002)*, “Economic Focus: The Dollar and the Deficit”.


Monetary and Fiscal Policy

*Blanchard and Fischer Ch. 4


*Agenor and Montiel  ch??


*Hahn, F., and B. Friedman (?) *Handbook of Monetary Economics*. North Holland. Ch 17


Friedman, M. (1969), *The Optimum Quantity of Money and Other Essays*. Wheatsheaf

Fry, Maxwell J. (1988), *Money, Interest and Banking in Developing Countries 2ed*


Senbet and Ncube/ Aryeetey (??) AERC plenary paper on Financial Mkts in Africa


**Inflation**


*Ball, L. and S. Cecchetti (1990), “Inflation and Uncertainty,” BPEA #1


Fiscal Policy

*Agenor and Montiel Chapter 3
*Romer Ch.11
*Walsh (1998), Monetary Theory and Policy, Cambridge MA: MIT Press, Ch. 4
*Handbook Ch. 22 and 25


Friedman and Hahn, *Handbook of Monetary Economics* ch 17


### Structural Macroeconomics and Macro Policy in Africa


Foley, Duncan (19??), A Book on Advanced Macroeconomic Theory?


Davidson, Post-Keynesian Macroeconomics.


Kalecki (1971) *Dynamics of the Capitalist Economy*

Kalecki Collected Works of Michael kaleski on Mixed and Developing Economies


**Macro Policy/ Structural Adjustment/ in Africa**


Agenor and Montiel (1996), *Development Macroeconomics*, Ch. 8


Khan, M. S. and M. Knight (1981) “Stabilization Programs in Developing Countries: A formal framework” IMF Staff Papers, Vol. 28, No. 1


**Course Assessment**

A) Each Candidate will write a review of literature in 4/5 topical areas of the lecture based on 7 to 10 latest working papers/and Presentation (20%)  
B) There will be bi-weekly drill on each of the lecture topics (to be handled by a teaching assistant) (15%)  
C) A Group paper (A group of 2 in each team: Eg A DSGE Model for X country) (15%)  
D) Individual term paper on lecture topics on Ethiopia or Africa , 20 pages in a model of AER, Journal of African Economies etc (20%)  
   Eg A DSGE Model for Ethiopia/ Kenya/Uganda/Sudan/Rwanda/Ghana  
E) Final Exam (30%)

**Important Notice:**
Candidates will be divided in to two groups and will prepare a lecture note (with accompanied PPT) for Lecture 5 (Monetary) & Lecture 6 (Fiscal Policy) based on Romer (2012) or any simpler but equally rigorous source. One group will also evaluate and comment on the others lecture note in class. This will be used for the next generation students that come after you. Dead line: before the end of lecture 3.

*Other Universities which want a one semester course (such as Alemaya/Haramaya University) can take Lectures 1, 2, 4 & 6 from Macro I and 1, 2, 3 & 4 from Macro II in consultation with me.*