

UNIVERSITY OF MARYLAND
Department of Economics

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Fall 2006

Economics 701 -- Advanced Macroeconomics

The book listed below serves as background material for the course. It is not required but has much background information about the first main topic:

Davis, S., J. Haltiwanger and S. Schuh, Job Creation and Destruction, MIT Press: Cambridge, 1996.

Many of the articles are available on the h:\drive for the department in the directory "Econ 701-702 readings". Alternatively, many of the articles are available on the web via the Department website for online journals and/or the homepages of the authors. I have marked the articles with a (*) that I will cover in some detail in class. The articles marked with a "S" are articles that can be presented in the student presentations (see below). The articles that are not marked are just for background reading. Note as well that some of the material for the class (including the first several lectures) can be found on my homepage with the following link:
http://www.bsos.umd.edu/econ/haltiwanger/lectures_reallocation.htm.

For this class, students will make two presentations. First, all students will choose one of the articles marked with a "S" and make a 15 minute presentation on the article at a time to be chosen (around the middle of the semester). Details of this assignment will be provided at a later date. Second, all students will write a paper/proposal for this class. The paper/proposal must be on a topic covered in some broad sense in Economics 701 and the specific topic must be approved by me. Each student will make a 15 minute presentation during the last few weeks of the semester on their proposal/paper. The proposal/paper will be due on December 15. It should be a 10-15 paper that outlines an empirical and/or theoretical project. The outline must be detailed and represent considerable progress on the project (although not necessarily completion). For example, for a theoretical project, a model must be specified, discussion of the issues that will be addressed must be provided, and some preliminary results must be provided (e.g., some numerical analysis or analytical results from of a simple version of the model). For an empirical project, the specification of the empirical analysis must be provided, the datasets to be used must be identified and at least some version of the data and some version of the empirical analysis must be provided.

The grade for the semester will be based on the following: 60 percent paper/proposal, 20 percent on a final exam, 15 percent on the article presentations, and 5 percent on an empirical assignment due in the first two weeks.

READING LIST

Topic I: Reallocation and Fluctuations

I. Basic Facts and Empirical Evidence

Baily, M., E. Bartelsman, and J. Haltiwanger, "Labor Productivity: Structural Change and Cyclical Dynamics," Review of Economics and Statistics, 2001.

* Davis, S., J. Haltiwanger and S. Schuh, Job Creation and Destruction, MIT Press: Cambridge, 1996.

* Davis, S., and J. Haltiwanger, "Gross Job Flows," in Ashenfelter and Card (eds.), Handbook of Labor Economics, North-Holland: Amsterdam, 1999.

* Davis, S. and J. Haltiwanger, "On the Driving Forces Behind Cyclical Movements in Employment and Job Reallocation," American Economic Review, 1999.

Davis, S. and J. Haltiwanger, "Sectoral Job Creation and Destruction Responses to Oil Price Changes and Other Shocks" Journal of Monetary Economics, December 2001.

* Davis, S., J. Haltiwanger and J. Faberman "The Flow Approach to Labor Markets, Micro-Macro Links, and the Recent Downturn," (co-authored with Steven J. Davis and R. Jason Faberman), Journal of Economic Perspectives, (forthcoming).

* Davis, S., J. Haltiwanger, R. Jarmin and J. Miranda, "Volatility and Dispersion in Business Growth Rates: Publicly Traded vs. Privately Held Firms," NBER Macro Annual 2006 (forthcoming) (also in NBER WP. No. 12345).

* Foote, C.. "Trend Employment Growth and the Bunching of Job Creation and Destruction," Quarterly Journal of Economics, 1998, 113(3), 809-834.

Foster, L., J. Haltiwanger and C.J. Krizan, "Aggregate Productivity Growth: Lessons from Microeconomic Evidence," in New Developments in Productivity Analysis, NBER/University of Chicago Press, 2001.

Foster, L., J. Haltiwanger and C.J. Krizan, "Market Selection, Reallocation, and Restructuring in the U.S. Retail Trade Sector in the 1990s," Review of Economics and Statistics, (forthcoming).

* Foster, L., J. Haltiwanger, and C. Syverson, "Reallocation, Firm Turnover and Efficiency: Selection on Productivity or Profitability," NBER Working Paper No. 11555, August 2005.

Gourinchas, P. "Exchange Rates, Job Creation and Destruction," NBER Macro Annual, 1998.

- * Hall, R., "Lost Jobs," Brookings Papers on Economic Activity, 1995, 1, 221-273.
- * Hall, Robert E., 2005a. "Job Loss, Job Finding, and Unemployment in the U.S. Economy over the Past Fifty Years," forthcoming, *2005 NBER Macroeconomics Annual*, Cambridge, MA: MIT Press.
- Hall, Robert E., 2005b. "Employment Fluctuations with Equilibrium Wage Stickiness." *American Economic Review*, 95(1): 50-65.
- Haltiwanger, J. and M. Vodopivec, "Gross Worker and Job Flows in a Transition Economy: An Analysis of Estonia," Labour Economics, 2002.
- Haltiwanger, J. and M. Vodopivec, "Worker Flows, Job Flows and Firm Wage Policies: An Analysis of Slovenia," Working Paper, January 2003.
- Nickell, Stephen J. (1998). "Job Tenure and Labour Reallocation: A Partial Overview," in *Job Creation: The Role of Labor Market Institutions*, (Jordi Gual, ed.), Cheltenham, U.K.: Elgar Publishing Co.
- *Olley, S. and A. Pakes, "The Dynamics of Productivity in the Telecommunications Equipment Industry," *Econometrica*, 1996, 64(6), 1263-1297.
- *Shimer, Robert, 2005a. "The Cyclical Behavior of Equilibrium Unemployment and Vacancies," *American Economic Review* 95(1): 25-49.
- Shimer, Robert, 2005b. "Reassessing the Ins and Outs of Unemployment." University of Chicago: mimeo.
- * Syverson, Chad, "Market Structure and Productivity: A Concrete Example." *Journal of Political Economy* 112(6), (Dec. 2004), 1181-1222.
- Syverson, Chad, "Product Substitutability and Productivity Dispersion." *Review of Economics and Statistics* 86(2), (May 2004), 534-550.

II. Theoretical Underpinnings

- * Aghion, P. and P. Howitt, "Growth and Unemployment," Review of Economic Studies, July 1994, 477-494.
- "S" Aghion, P. and P. Howitt, "A Model of Growth Through Creative Destruction," Econometrica, 1992, 60(2): 323-351.
- "S" Barlevy, G., "Credit Market Frictions and the Allocation of Resources Over the Business Cycle," mimeo, October 2000.
- * Barlevy, G., "The Sullyng Effect of Recessions," Review of Economic Studies, January 2002.

- * Caballero, R. and M. Hammour, "The Cleansing Effect of Recessions," American Economic Review, 1994, 84: 1350-1368.
- "S" Caballero, R. and M. Hammour, "On the Timing and Efficiency of Creative Destruction," Quarterly Journal of Economics, 1996, August, 805-852.
- "S" Caballero, R. and M. Hammour, "The Macroeconomics of Specificity," Journal of Political Economy, 1998. 106(4): 724-767.
- "S" Caballero, R. and M. Hammour, "Creative Destruction and Development: Institutions, Crises, and Restructuring," mimeo, 2001.
- "S" Caballero, R. And M. Hammour, "The Cost of Recessions Revisited: A Reverse Liquidationist View," mimeo, 2003.
- "S" Campbell, J. and J. Fisher, "Aggregate Employment Fluctuations with Microeconomic Asymmetries," American Economic Review, December 2000.
- Campbell, J. and J. Fisher, "Idiosyncratic Risk and Aggregate Employment Dynamics," mimeo, July 2001.
- "S" Campbell, J., "Entry, Exit, Embodied Technology and Business Cycles," Review of Economic Dynamics, April 1998.
- "S" Caplin, A. and J. Leahy, "Miracle on Sixth Avenue: Information Externalities and Search", Economic Journal, January, 60-74, 1998.
- * Davis, S. and J. Haltiwanger, "Gross Job Creation and Destruction: Microeconomic Evidence and Macroeconomic Implications," NBER Macroeconomics Annual 1990, 123-186.
- "S" Den Haan, W., G. Ramey, and J. Watson, "Job Destruction and Propagation of Shocks," American Economic Review, 2000.
- * Ericson, Richard and Ariel Pakes, "Markov Perfect Industry Dynamics: A Framework for Empirical Work," Review of Economic Studies, Vol. 62(1), 1995, 53-82.
- * Jovanovic, Boyan, "Selection and the Evolution of Industry," Econometrica, 50(3), 1982, 649-670.
- *Mortensen, D. and C. Pissarides, "Job Creation and Job Destruction in the Theory of Unemployment," Review of Economic Studies, 1994, 61: 397-415.
- "S" Ramey, Garey and Joel Watson, "Contractual Fragility, Job Destruction and Business Cycles," Quarterly Journal of Economics, 1997, 112(3): 873-911.
- Rogerson, Richard and Diego Restuccia, "Policy Distortions and Aggregate Productivity with Heterogeneous Plants," working paper, 2003.

II. Topic 2: Adjustment Costs – Capital and Labor

Abel, A. and J. Eberly, "The Mix and Scale of Factors with Irreversibility and Fixed Costs of Adjustment," Carnegie-Rochester Conference Series on Public Policy, October 1998.

* Caballero, R., "Aggregate Investment: A 90's Views," in: John Taylor and Michael Woodford, editors, The Handbook of Macroeconomics, Amsterdam: North-Holland.

Caballero, Ricardo and Eduardo M.R.A. Engel, "Microeconomic Adjustment Hazards and Aggregate Dynamics," Quarterly Journal of Economics, 1993.

Caballero, Ricardo and Eduardo M.R.A. Engel, "Explaining Investment Dynamics in U.S. Manufacturing: A Generalized (S,s) Approach," Econometrica, July 1999. 1994.

* Caballero, Ricardo, Eduardo M.R.A. Engel and John Haltiwanger, "Plant Level Adjustment and Aggregate Investment Dynamics," Brookings Papers on Economic Activity, 1995.

* Caballero, Ricardo, Eduardo M.R.A. Engel, and John Haltiwanger, "Aggregate Employment Dynamics: Building from Microeconomic Evidence," American Economic Review, March, 1997.

* Cooper, Russell, John Haltiwanger and Laura Power, "Machine Replacement and the Business Cycle: Lumps and Bumps," American Economic Review, 1999.

* Cooper, Russell and John Haltiwanger "On the Nature of Capital Adjustment Costs," Review of Economic Studies, 2006.

* Cooper, Russell, John Haltiwanger and Jonathan Willis, "Dynamic Labor Demand: Evidence from Plant-Level Observations and Aggregate Implications," NBER Working Paper No. 10297, February 2004.

* Cooper, Russell, John Haltiwanger and Jonathan Willis, "Hours and Employment Implications of Search Frictions: Matching Aggregate and Plant-Level Observations," working paper, 2006.

Hamermesh, D. and G. Pfann, "Labor Demand and the Structure of Adjustment Costs," Journal of Economic Literature, pp. 1264-92, 1996.