INSTRUCTION: I will give two 1.25 hour lectures per week. There will also be one
discussion section per week, conducted by your TA, Jorge Salas. Eighty percent of your
first-half grade will be based on a two-hour exam on WEDNESDAY, OCTOBER 22.
The remaining portion will be based on weekly problem sets. You may work in study
groups, but the only way that you will learn the material is by working on problems
yourself, so free riding off other study group members will only hurt you in the long run.

COURSE WEBPAGE: The syllabus, problem sets, old course and comp exam questions
and answer keys are available at http://econweb.umd.edu/~salas/Econ601.html

TEXT: Recursive Macroeconomic Theory (3rd ed), Ljungquist/Sargent (L+S)

READINGS (all available online): Some of these will be discussed in detail in class; for
your exam, you are responsible for knowing readings I discuss in class. Others will be
discussed only briefly or not at all, and are listed for your further exploration. Reading
articles now will help you later on when you start writing your own research.

I. The Life Cycle/Permanent Income Hypothesis and Variants: Theory

L+S: Chapter 1 (can skim); Chapter 2 (can skim sections 2.5 through 2.10, read rest);
Chapter 3 (read all, plus Appendix A pp. 1257-1268); Chapter 4 (can skim section 4.7;
read rest); Chapter 5 (can skim sections 5.4-5.6; read rest); Chapter 8 (read sections 8.1
through 8.6 only); Chapter 17 (read all); chapter 18 (skim sections 18.8-18.12; read rest)

Deaton, Angus (1991), "Saving and Liquidity Constraints," Econometrica 59,
1221-1248.

Zeldes, Steven (1989), "Optimal Consumption with Stochastic Income: Deviations

II. Empirical Evidence on Consumption

Aguiar, Mark and Eric Hurst (2005), "Consumption Versus Expenditure," Journal of
Political Economy 113 (5), 919-948.

Political Economy 99 (5), October, 957-975.

Fuchs-Schundeln, Nicola, and Matthias Schundeln (2005), "Precautionary Saving and
Self-Selection: Evidence from the German Reunification Experiment", Quarterly
Journal of Economics 103 (5).


### III. Introduction to Asset Pricing

L+S: Chapters 13-14.

