

**AFRICAN ECONOMIC RESEARCH CONSORTIUM (AERC)**

**COLLABORATIVE PHD PROGRAMME (CPP) IN  
ECONOMICS FOR SUB-SAHARAN AFRICA**



**MACROECONOMICS**

**COURSE OUTLINE**

**(Revised: February, 2014)**



## **Introduction**

This course is an advanced treatment of contemporary macroeconomic theory that prepares students to carry out research. Current controversies will be discussed as well as relevance of theoretical and policy issues in an African context.

## **Objectives of the Course**

At the end of the course a student is expected to:

- (i) Thoroughly understand the structure of a macroeconomic system and its underlying theoretical framework as well as controversies and debates.
- (ii) Use methodology and techniques studied in conceptualizing and postulating relevant macroeconomic issues.
- (iii) Evaluate macroeconomic policies.
- (iv) Cultivate a critical perspective to current developments in Macroeconomics.

## **Pre-requisites for the Course**

It is required that the student has a satisfactory knowledge of Macroeconomics at the Master's level of the CMAP/PTCI or other master's degree based on coursework and external review. Competence in calculus and algebra is a pre-requisite.

## **Recommended Textbooks (Compulsory)**

There is no single textbook for a course of this nature. However, the following six texts have been recommended:

- 1) Acemoglu, D., (2009), *Introduction to Modern Economic Growth*. Princeton University Press
- 2) Blanchard, O. J. and S. Fischer (1989), *Lectures on Macroeconomics*, MIT Press.
- 3) Cochrane, J.H.,(2005), *Asset Pricing*, Revised Edition, Princeton University Press
- 4) Obstfeld, M., Rogoff, K., (1996), *Foundation of International Macroeconomics* Cambridge, MA: MIT Press.
- 5) Romer, D., (2012), *Advanced Macroeconomics* 4<sup>th</sup> Ed. New York: McGraw Hill
- 6) Wickens, M., (2011), *Macroeconomic Theory: A dynamic General Equilibrium Approach*, 2<sup>nd</sup> Edition, New Jersey; Princeton University Press



In addition, under each topic, we provide a sample of other books and journal articles that would be useful.

**Other Recommended Textbooks**

Walsh, C. E., (1998), *Monetary Theory and Policy*, Cambridge, MA: MIT Press.  
Taylor, B., Woodford, M., (1998), *Handbook of Macroeconomics* Vol. 1A, B, & C. North Holland.  
Soludo, C., (1998), *Macroeconomic Policy Modelling of African Economies*, Acena, Enugu, Nigeria  
Turnovsky, S.T., (1979), *Macroeconomic Analysis and Stabilization*, Cambridge: University Press.  
Turnovsky, S.T., (2000), *Methods of Macroeconomic Dynamics*, 2<sup>nd</sup> ed. Cambridge, Mass.: MIT Press.  
Ljungqvist, L., Sargent, T.J., (2000), *Recursive Macroeconomic Theory*. Cambridge, Mass.: MIT Press.

**Course Assessment**

Continuous Assessment	40 percent
Final Examination	60 percent
Total	100 percent





## DETAILED COURSE OUTLINE AND READING LIST

### SEMESTER I

## ECON 606: MACROECONOMICS I

### 1. Introduction [4 Hours]

- Brief history of macroeconomics
- Overview of macroeconomic methods: Dynamics and recursive methods: Lucas Critique, Expectations, Micro-macro dichotomy and the microeconomic foundations of macroeconomics

Attanasio, O. P., "Consumption." (1999), Chapter 11 in Handbook of Macroeconomics, edited by John B. Taylor and Michael Woodford, Vol. 1B. Elsevier

Blaug, M., (1999), *Economic Theory in Retrospect*, 5<sup>th</sup> Edition, New York, Cambridge University Press

Blinder A.S., (1987), "Keynes, Lucas and Scientific Progress" *American Economic Review*, Vol. 77, No. 2.

Boland, L.A., (1979), "A Critique of Friedman's Critics," *Journal of Economic Literature*, Vol. 17, pp. 503-22.

Boland, L. A., (1982), *The Foundations of Economic Methods*, London: George Allen & Unwin.

Hall, P. A., (1989), *The Political Power of Economic Ideas: Keynesianism across Nations*. Princeton, N.J.: Princeton University Press.

Hansen, L.P., Sargent, T.J., (2000), "Recursive Linear Models of Dynamic Economies," NBER Working Papers 3479, National Bureau of Economic Research, Inc.

Judd, K.L. (1998), *Numerical methods in economics*. The MIT Press

Kydland, F., Prescott, E., (1996), "The Computational Experiment: An Econometric Tool" *The Journal of Economic Perspectives*, Vol.10, pp69 – 85.

Sims, C. A., (1996), "Macroeconomics and Methodology" *Journal of Economic Perspectives*, Vol. 10, pp 105 – 120.

Snowdon, B., Vane H. (2005), *Modern Macroeconomics*, Edward Elgar.

Stokey, N.L., R.E. Lucas, Jr., (1989), *Recursive Methods in Economic Dynamics*. Cambridge: Harvard University Press



Weintraub, E.R., (2001), *Microfoundations: The compatibility of microeconomics and macroeconomics*, Cambridge University Press





## 2. Growth Theories [20 hours]

- Stylized facts about economic growth
- Growth Models
  - Neoclassical Growth Models: Solow Model; Infinite Horizon And Overlapping Generation Models: The Ramsey-Cass- Koopmans Model; The Diamond model
  - Endogenous growth models: AK, Lucas, Romer, Human Capital-Augmented Model
- Empirical Application of Growth Models

Acemoglu, Chs 1-4, 8-14.

Blanchard and Fischer Chapters 1-4.

Romer, Chs 1 - 4.

Abel, A. B., Mankiw, G., Lawrence H. S., Zeckhauser, R.J., (1989), "Assessing Dynamic Efficiency: Theory and Evidence," *Review of Economic Studies*, January, pp. 1-19.

Acemoglu, D., (2009), *Introduction to Modern Economic Growth*. Princeton University Press

Acemoglu, D., Johnson, S., Robinson, J., (2001), "The Colonial Origin of Comparative Development: An Empirical Investigation," *American Economic Review* No. 91 (December).

Barro, J., Sala-i-Martin, X., (2004), *Economic Growth*, 2<sup>nd</sup> Edition Cambridge: MIT Press.

Brock, W.A., Durlauf, S. N., (2001), "Growth Empirics and Reality," *The World Bank Economic Review*, Volume 15, Number 2.

Corden, M.W., (1990) "Macroeconomic Policy and Growth: Some Lessons of Experience," *Proceedings of the World Bank Annual Conference on Development Economics*, Washington: The World Bank.

Denison, E. F., (1962), *The Sources of Economic Growth in The United States and the Alternatives Before Us*, New York: Committee for Economic Development.

Diamond, P.A., (1965), "National Debt in a Neoclassical Growth Model," *American Economic Review*, December, pp. 1126-1150.

Dornbusch, R., (1990), "Policies to Move from Stabilization to Growth," *Proceedings of the World Bank Annual Conference on Development Economics*, Washington D.C.: The World Bank.

Dramani, L.A.G., (2010), *Convergence and economic integration in Africa: The case of the Franc zone countries*. AERC RP 200



- Easterly, W., Ross, L., (2001), "It's Not Factor Accumulation: Stylized facts and growth Models," *The World Bank Economic Review*, Vol. 15 No. 2 pp.177-227.
- Ekpo, A.H., (1994), "Public Expenditure and Growth in Nigeria" *Final Report*, AERC, Nairobi, Kenya.
- Elhanan, H., (2004), *The mystery of economic growth*. Belknap Press
- Galbis, V., (1977), "Financial Intermediation and Economic Growth in Less Developed Countries: A Theoretical Approach," *Journal of Development Studies*, Vol. 13(2), pp. 58-72.
- Galbis, V., (1979), "Money, Investment and Growth in Latin America, 1961 – 73," *Economic Development and Cultural Change*, 27(3).
- Hall, R. E., Jones, C.I., (1999), "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, February, pp. 83-116.
- Jones, C. I., (2005), "Growth and Ideas," in *Handbook of Economic Growth*, Volume 1B, edited by Philippe Aghion and Steven Durlauf (Amsterdam: Elsevier, pp. 1063-1111.
- Jorgenson, D. W., Griliches, F., (1967), "The Explanation of Productivity Change," *Review of Economic studies*, July.
- Kaldor, N., (1961), "Economic Growth and Capital Accumulation," in F. Lutz and D.C. Hagne, eds (1961), *The Theory of Capital*, London: Macmillan.
- Khan M. S., Reinhart, C., (1990), "Private Investment and Economic Growth in Developing Countries", *World Development*, January, p. 19.
- Khan, M. S, Villanueva, D., (1991), "Macroeconomic Policies and Growth: A Conceptual and Empirical Review" *AERC Special Paper No. 13*.
- Kremer, M., (1993), "Population Growth and Technical Change: One Million B.C. to 1990," *Quarterly Journal of Economics*, August, pp. 681-716.
- Lucas, Robert E., Jr., (1988), "On the Mechanics of Economic Development," *Journal of Monetary Economics*, July, pp. 3-42.
- Mankiw, G., Romer, D., Weil, D., (1992), "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, May, pp. 407-437.
- Mohammed, N.A.L., (1993), "Economic Growth and Defence Spending in Sub-Saharan Africa: Benoit and Joerding Revisited," *Journal of African Economies*, Vol. 2 No. 2, October.
- Montiel, P. J., (1996) "Financial Policies and Economic growth: Theory, Evidence and Country-specific Experience from Sub-Saharan Africa," *Journal of African Economies*, Supplement to Volume 5 number 3.
- Obstfeld, M., Rogoff, K., (1996), *Foundations of International Macroeconomics* Cambridge: MIT Press, pp. 430-440.  
October (Part 2), pp. S71-S102.



- Phelps, E. S., (1961), "The Golden Rule of Accumulation: A Fable for Growth men," *American Economic Review*, September.
- Philippe, A., Steven, N., eds (2005). *Handbook of Economic Growth*. North Holland
- Pritchett, L., (2000), "Understanding Patterns of Economic Growth: Searching for Hills among Plateaus, Mountains, and Plains," *The World Bank Economic Review*, Vol. 14, No. 2, pp. 221-50.
- Romer, P. M., (1990), "Endogenous Technical Change," *Journal of Political Economy*,
- Sachs, J., Warner, A.M., (1997), "Sources of Slow Growth in African Economies," *Journal of African Economies*, Vol. 6, No. 3.
- Sala-i-Martin, X, (1997), "I Just Ran Two Million Regressions," *American Economic Review*, Vol. 87, No.2, pp.178-83.
- Schmidt-Hebbel, K., (1996) "Fiscal Adjustment and growth: In and Out of Africa," *Journal of African Economies*, Supplement to Vol. 5 No. 3.
- Solow, R. M., (1956), "A Contribution to the Theory of Economic Growth," *Quarterly Journal of Economics*, February, pp. 65-94.
- Solow, R. M., (1957), "Technical changes and the Aggregate Production Function," *Review of Economics and Statistics*, August.
- Solow, R. M., (1970), *Growth Theory*, Oxford: Oxford University Press.
- Solow, R. M., (2001) "Applying Growth Theory across Countries," *The World Bank Economic Review*, Vol.15, No. 2.
- Stefan, B., (2008). *Longrun growth forecasting*, Heidelberg, Springer
- Temple, J., (1999), "The New Growth Evidence," *Journal of Economic Literature* 37, pp. 112-156.
- Tobin, James (1965), "Money and Economic Growth," *Econometrica*, Vol. 33, October.

### **3. Business Cycles [8 Hours]**

- Stylized facts about economic fluctuations
- Real Business Cycle Theory
- Nominal rigidity
- DSGE Model of fluctuations
- Relevance to Africa

Romer, Chs. 5-7.

Blanchard and Fischer Chs. 1 and 7.

Agenor, P-R, McDermott, C.J., Prasad, E.S., (2000), "Macroeconomic Fluctuations in Developing Countries: Some Stylized Facts," *The World Bank Economic Review*, Vol. 14, No. 2, pp. 251-85.



- Cooley, T.F., (Ed.) (1995). *Frontiers of business cycle research*. Princeton University Press
- Easterly, W., Stiglitz, J.E., (2001), "Shaken and Stirred: Explaining Growth Volatility," *Annual World Bank Conference on Development Economics, 2000*, pp. 191-211.
- Fischer, S., (1977), "Long term Contracts, Rational Expectations, and the Optimal Money Supply Rule" *Journal of Political Economy*, Feb., P. 191 – 206.
- Gordon, R., (1981), "Output Fluctuations and Gradual Price Adjustment", *Journal of Economic Literature*, June 1981.
- Kydland, F.E., Prescott, E.C., (1982), Time to build and aggregate fluctuations. *Econometrica* 50 (6), 1345-1370
- Kydland, F.C., Prescott, E.C., (1994), "Business Cycles: Real Facts and a Monetary Myth," in Preston J. Miller, ed. (1994), *The Rational Expectations Revolution: Readings from the Front Line*, Cambridge, Mass.: MIT Press.
- Ljungqvist, L., Sargent, T.J., (2004), *Recursive Macroeconomic Theory*. Cambridge, Mass. MIT Press.
- Long, J., Plosser, C., (1983), "Real Business Cycles," *Journal of Political Economy*, Vol. 91, 39-69.
- Lucas, R. Jr. (1987), *Models of Business Cycles*, Oxford: Basil Blackwell
- Lucas, R. Jr. (1975), "An equilibrium model of business cycle," *Journal of Political Economy*.
- Mankiw, G. (1989), "Real Business Cycles: A new Perspective", *Journal of Economic Perspectives*, Vol. 3, No. 3.
- Rebelo, (2005), "Real Business Cycle Models: Past, Present and Future", *Scandinavian Journal of Economics*.
- King, R.G., Rebelo, S.T., (1999), "Resuscitating Real Business Cycles" *Hand Book of Macroeconomics*, Elsevier Science.
- Sargent, T., (1987), *Macroeconomic Theory*, 2nd ed. Boston: Academic Press.
- Sargent, T., Wallace, N., (1976) "Rational Expectations and the Theory of Economic Policy" *Journal of Monetary Economics*, April, p. 169-184.
- Taylor, J. B., (1979), "Staggered Wage setting in a Macro Model" *American Economic Review*, May.

#### **4. Application of Dynamic Programming in Macroeconomics [8 Hours]**

- State variables
- State transitions
- Markov processes
- Bellman equation
- Value function



- Recursive formulation- comparison with sequential formulation

Ljungqvist and Sargent, Chapter 1.4, 3, 4, 5

Shanaku, J. P., Maynus, S., (2007). An estimated DSGE model for monetary policy analysis in Low income countries, IMF Working Paper WP/07/282

Sydsaeter, K., Hammond, P., Seierstad, A., Storm, A., (2008). Further Mathematics for Economic Analysis, 2<sup>nd</sup> Edition, Chapter 12

## 5. Asset Pricing [6 Hours]

- Bond pricing
- Risky asset pricing
- Risk sharing
- Consumption Based Security Pricing

Ljungqvist and Sargent, Chapter 1.3, 13

Cochrane, Chapter 1, 3

Bundoo, S.K., (2011), Asset price Developments in an Emerging stock market: The case study of Mauritius AERC RP 219

Campbell, J.Y., Cochrane, J.H., (1999), By force of habit: A consumption-based explanation of aggregate stock market behaviour. *Journal of Political Economy*, Vol. 107, pp.205-251.

Duffie, D., (2001), *Dynamic asset pricing theory*, 3<sup>rd</sup> edition, Princeton University Press

Cochrane, J.H., (2005), *Asset Pricing*. Revised Edition, Princeton University Press

LeRoy, S.F., Werner, J., (2000), *Principles of Financial Economics*, 1<sup>st</sup> Edition, Cambridge University Press, Chapter 14

Mehra, R., Prescott, E.C., (1985), The equity premium: A puzzle. *Journal of Monetary Economics*. Vol. 15, 145-161

## 6. Two Period Model and Infinite Horizon Model of Consumption and Saving [10 Hours]

- **A two period model of consumption and saving- deterministic case**
  - Basic intertemporal consumption model
  - Lifetime formulation
  - Sequential formulation
  - Real interest rates
  - Lifecycle/ Permanent income model
  - Consumption smoothing
  - Intertemporal elasticity of substitution (IES)



- **A two period model of consumption and saving- Stochastic case**
  - Certainty equivalence
  - Precautionary savings
  - Risk aversion
  - Absolute Risk Aversion (ARA)
  - Relative Risk Aversion (RRA)
- **Infinite horizon Model of Consumption and Saving**
  - Subjective time preference
  - Transversality condition
  - Steady state
  - Long- run interest rates

Ljungqvist and Sargent, Chapter 13

Romer, Ch 8.

Blanchard and Fischer Ch. 6.

Attanasio, O. P., Szekely, M., (2001), Household Saving in East Asia and Latin America: Inequality, Demographics and All That," *Annual World Bank Conference on Development Economics, 2000*, pp. 393-438.

Carroll, D., (2001), "A Theory of Consumption Function with and without Liquidity Constraints", *Journal of Economic Perspectives*, Vol. 15, Summer.

Gross, D., Souleles, N., (2002), "Do Liquidity Constraints and Interest Rates Matter for Consumer Behavior? Evidence from Credit Card Data," *Quarterly Journal of Economics*, February, pp. 149-185.

Deaton, A., (1992), "Saving and Income Smoothing in Cote d'Ivoire" *Journal of African Economies*, Vol. 1 No. 1, pp.1-24

Deaton, A., (1989), "Saving in Developing Countries: Theory and review." *Proceedings of the World Bank Annual Conference on Development Economics*, pp. 61-96.

Elbadawi, I., Mwega F. M., (2000), "Can Africa's Saving Collapse be Reversed?" *The World Bank Economic Review*, Vol. 4, No. 3, pp. 415-443

Friedman, M., (1957), *A Theory of the Consumption Function*, Princeton: Princeton University Press.

Angeletos, G.M., Laibson, D., Repetto, A., Tobacman, J., Weinberg, S., (2001), "The Hyperbolic Consumption Model: Calibration, Simulation, and Empirical Evaluation," *Journal of Economic Perspectives*, Summer, pp. 47-68.

Ljungqvist, L., Thomas, J., Sargent, T., (2004), *Recursive Macroeconomic Theory*, 2<sup>nd</sup> ed. Cambridge: MIT Press, Chapter 3, pp. 109-118.



Friedman, A.M., (1957), *Theory of The Consumption Function* (Princeton: Princeton University Press, Chapters I, II, and III, pp. 3-37.

Raut, L.K., and Virmani, A., (1990) "Determinants of Consumption and Savings Behaviour in Developing Countries." *The World Bank Economic Review*, Vol. 3, No. 3





## 7. Investment [4 Hours]

- Investment under Uncertainty
- Optimal investment decisions

Romer, Ch 8.

Blanchard and Fischer Ch. 6.

Abel, A. B., Avinash K. D., Janice C. E., Pindyck, R.S., (1996), "Options, the Value of Capital and Investment," *Quarterly Journal of Economics*, August, pp. 753-77.

Asante, Y., (2000), "Determinants of Private Investment Behavior in Ghana," *AERC Research Paper 100*.

Batana, Y. M., (2011), Analysis of the determinants of foreign direct investment flows to the West African and Economic Union Countries AERC RP 239

Chirinko, R. S., (1996), "Investment under Uncertainty: A Review Essay," *Journal of Economic Dynamics and Control*, Vol. 20, pp. 1801-08.

Dixit, A., Pindyck, R., (1994), *Investment under Uncertainty*, New Jersey, Princeton University Press

Ekpo, A.H., (1987), "Capital Formation in Selected West African Countries Theory and Empirical Evidence." *Analysis Economico*, Vol. 2, No. 1, June, pp. 55-65.

Felding, D., (1993), "Determinants of Investments in Kenya and Cote d'Ivoire," *Journal of African Economies*, Vol. 2 number 3.

Gnansounou, S.U., (2010), The determinants of private investment in Benin: A panel data Analysis. AERC RP 209

Hirshleifer, J., (1958), "On the Theory of the Optimal Investment Decision" *Journal Political Economy*, August.

Jorgensen, D., (1963) "Capital Theory and Investment Behaviour", *American Economic Review*, May.

Khan, A.S., (2011), Volatility of resources inflows and Domestic Investment in Cameroon. AERC RP 221

Leahy, J. V., Whited, T.M., (1996), "The Effect of Uncertainty on Investment: Some Stylized Facts," *Journal of Money, Credit, and Banking*, Vol. 28, No. 1, pp. 64-82.

Majd, S., Pindyck, R.S., (1987), "Time to Build, Option Value, and Investment Decisions," *Journal of Financial Economics*, Vol. 18 (March), pp. 7-27.

Ndiwulu, X. B., Manzongani, J.M., (2011), Uncertainty and Investment Behaviour in the Democratic Republic of Congo. AERC RP 226

Oyieke, S.O., (2011), Government capital spending and financing and its impact on private investment in Kenya: 1964-2006. AERC RP 236



- Pattillo, C., (1998), "Investment, Uncertainty, and Irreversibility in Ghana," *IMF Staff Papers*, Vol. 45. No. 1 (September), pp. 522-53.
- Pindyck, R. S., (1991), "Irreversibility, Uncertainty, and Investment," *Journal of Economic Literature*, Vol. 29, pp110 - 148.
- Pindyck, R. S., Solimano, A., (1993), "Economic Instability and Aggregate Investment," *NBER Macroeconomics Annual* 8, pp. 259-303.
- Rama, M., (1993), "Empirical Investment Equations for Developing Countries," in Luis Serven and Andres Solimano, eds. (1993), *Striving for Growth After Adjustment: The Role of Capital Formation*, Washington, D.C.: World Bank.
- Schwartz, E., Trigeorgis, L., (2001), *Real Options and Investment under Uncertainty: Classical Readings and Recent Contributions*. Cambridge, Mass.: MIT Press.
- Serven, L., (1998), "Macroeconomic Uncertainty and Private Investment in Developing Countries: An Empirical Investigation," *Policy Research Working Paper 2035*, World Bank, Development Research Group, Washington, D.C.
- Vonnegut, A., (2000), "Real Option Theories and Investment in Emerging Economies," *Emerging Markets Review*, Vol. 1, pp. 82-100.

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## SEMESTER II

### ECON 607: MACROECONOMICS II

#### 8. **Open Economy Macroeconomics** [12 Hours]

- Optimal solution for the economy
- Traded and nontraded goods
- Terms of trade and real exchange rates
- Imperfect substitutability of tradeables
- Current account sustainability

Wickens, M., (2011). *Macroeconomic Theory: A dynamic General Equilibrium Approach*, 2<sup>nd</sup> Edition, New Jersey, Princeton University Press

Agenor, P.R., (1990), "Stabilization Policies in Developing Countries with a Parallel Market for Foreign Exchange: A Formal Framework" *IMF Staff Papers*, September.

Ajayi S. I., (1997), "An Analysis of External Debt and Capital Flight in the Heavily Indebted Poor Countries of Sub-Saharan Africa" in Zubair I. And Kanbur R. (eds) *External Finance for Low Income Countries*, Washington D. C. International Monetary Fund

Ajayi S. I., (1992), "An Economic Analysis of Capital Flight from Nigeria" *World Bank Working Paper Series*\_No. 993.

Bhasin,V., B., (2004), *Dynamic Inter-Links Among the Exchange rate, Price Level and Terms of Trade in a Managed Floating Exchange Rate System: The Case of Ghana*, AERC RP 141

Clark P. B., (1996), "Concepts of Equilibrium Exchange Rates" *Journal of International and Comparative Economies* Vol. 20.

Corden, W. M., (1986), *Inflation, Exchange Rates and the World Economy*, University of Chicago Press.

Degefa, D., (2001), "The parallel foreign exchange market and macroeconomic performance in Ethiopia" *AERC Research Paper*\_107.

Edwards, S.,(1989), *Real Exchange Rate, Devaluation and Adjustment*, The MIT Press

Eichengreen, B., Rose, A., Wyplosz, C., (1994), "Speculative Attacks on Pegged Exchange Rates: an Empirical Exploration with Special Reference to the European Monetary System", *NBER Working Paper* No.4898, October.

Elbadawi, I., Soto, R., (1997), "Real Exchange rates and Macroeconomic Adjustment in Sub-Saharan Africa and other developing countries" *Journal of African Economies*, Vol. 6 No. 3.



- Grossman, G., Rogoff, K., (1995), *Handbook of International Economics*, Vol. III Amsterdam: Elsevier.
- Helmers, L. C., Dornbusch, R., (ed) (1987), *The Open Economy: Tools for Policy Makers in Developing Countries*, The World Bank, Washington D.C.
- Hyuha, M., (1997), "Reflections on Forex Bureau/Parallel and Official Exchange Rates and Inflation in Uganda." Chapter 12 of F. M. Mwega and V. Seshamani, eds. *Economic Management in Sub-Saharan Africa: Lessons from the 1970s and 1980s and Prospects for the 1990s and Beyond*. Nairobi: East African Educational Publishers.
- IMF, (1997), "Exchange Rate Arrangements and economic performance in developing countries" Chapter 4 in *IMF World Economic Outlook*, Washington: IMF.
- Jebuni, C. D., Sowa, N. K., Tutu, K.S., (1991) "Exchange Rate Policy and Macroeconomic Performance in Ghana" *AERC Paper No. 6*.
- Kaminsky G., Lizondo, S., Reinhart, C., (1998), "Leading Indicators of Currency Crises", *IMF Staff Papers*, Vol.5, No.1, March, pp.1-48.
- Kidane A. (1994) "Indices of Effective Exchanges: A Comparative Study of Ethiopia, Kenya and the Sudan" *AERC Research Paper 29*
- Krugman, P., Taylor, L., (1978), "Contractionary Effects of Devaluation" *Journal of International Economics*.
- Lizondo, J. S., Montiel, P., (1989), "Contractionary devaluation in developing countries: an analytical overview" *IMF Staff Papers* Vol. 36, pp. 182-227.
- Lizondo, J. S., (1987), "Exchange Rate Differential and Balance of Payments under Dual Exchange Rates" *Journal of Development Economics*, Vol. 26, p. 37.
- Lizondo, J. S., (1987), "Unification of Dual Exchange Rate Markets" *Journal of International Economics*, Vol. 22, p. 57.
- Nigerian Economic Society (1995), *External Trade and Economic Development in Nigeria*, Ibadan.
- Njinkeu, D., Bamou, E., (2000), "Trade and Exchange Rate Options for the CFA countries: Simulations with a CGE model for Cameroon" *AERC Research Paper 96*.
- Obstfeld, M., Rogoff, K., (2007), The Unsustainable U.S. Current Account Position Revisited in Richard, Clarida (ed.), *G7 Current Account Imbalances*, Chicago: University of Chicago Press, pp. 339-366.
- Obstfeld, M., Rogoff, K., (1996), *Foundation of International Macroeconomics* Cambridge, MA: MIT Press, Chs. 1-3.
- Obstfeld, M., Rogoff, K., (2000), "New Directions for Stochastic Open Economy Models," *Journal of International Economics*, February, pp. 117-53.



- Obstfeld, M., Rogoff, K., (2000), "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?", *2000 NBER Macro Annual*.
- Obstfeld, M., (1998), "The Global Capital Market: Benefactor or Menace" *Journal of Economic Perspectives* (Fall), pp. 9-30.
- Ogun, O., (1998), "Real exchange rate movements and export growth in Nigeria 1960-90" *AERC RP 82*.
- Paul, R. B., (2003), "Putting the New Open Economy Macroeconomics to a Test" *Journal of International Economics*, Vol. 60, No1, pp. 3 – 34.
- Philip R. L., (2001), "The New Open macroeconomics: A Survey, *Journal of International Economics*, Vol. 54, No. 3, pp 235 – 266
- Pinto, B., (1989), "Black Market Premia, Exchange Rate Unification, and Inflation in Sub-Saharan Africa" *The World Bank Economic Review*, Vol.3, No. 3.
- Dornbusch, R., (1976), "Expectations and Exchange Rate Dynamics," *Journal of Political Economy*, December, pp. 1161-1176.
- Van Wijnbergen, S., (1986), "Exchange Rate Management and Stabilization Policies in Developing Countries" *Journal of Development Economics*, Vol. 23, Issue 2, pp 227-247
- Williamson, J., (1985), *The Exchange Rate System Policy Analysis in International Economics* Washington: Institute for International Economics.

## **9. Unemployment [10 Hours]**

- Search theory and unemployment
- Efficiency wage theory
- Wage stickiness and unemployment
- Unemployment and effectiveness of fiscal and monetary policy

Wickens, Ch 10

Romer, 4<sup>th</sup> Edition, Ch 10.

Blanchard and Fischer ch. 8.

Aigbokhan, B.E., (2011). Efficiency wage, Rent-sharing theories and wage determination in manufacturing sector in Nigeria. *AERC 222*

Christopher, P., (1990), *Equilibrium Unemployment Theory*, Cambridge, U.K. Blackwell.

Collier, P., Lal, D., (1986) *Labour and Poverty in Kenya 1990-1980*, Clarendon Press

Kanbur, R., Mazumdar, D., (eds) (1991) *Labour Markets and Adjustment*, Economic Development Institute, The World Bank.



- Kiiru, J., Onsomu, E., Wamalwa, F., (2009), Education, Training and Youth Unemployment in Kenya, *GDN Working Paper Series*, No. 26
- Kouakou, C.K., (2011), Urban youth labour supply and employment policy in Cote d'ivoire. RP 240
- Nyaga, R., (2010), Earnings and employment sector in Kenya, AERC RP 199
- Blanchard, O., Katz, L., (1997), "What We Know and Do Not Know about the Natural Rate of Unemployment," *Journal of Economic Perspectives*, Winter, pp. 51-72.
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## **10. Inflation and Monetary Policy [14 Hours]**

- Inflation and the Fisher Equation
- The Keynesian Model of Inflation
- The New Keynesian Model of Inflation
- Optimal Inflation Targeting
- Optimal Monetary Policy using the New Keynesian Model
- Optimal Mix of Monetary and Fiscal Policies
- Monetary policy, credibility and Central Bank Independence
- Monetary Policy in Sub Saharan Africa

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## 11. Fiscal Policy [14 Hours]

- Government budget constraint
- Financing Government Expenditures
- Sustainability of the Fiscal stance
- Stability and growth pact
- Fiscal Theory of the price level
- Optimizing Public Finances
- Optimal Government Expenditures
- Optimal Tax Rates
- Public debt management
- Time- consistent and time- inconsistent fiscal policy
- Overlapping Generations Model
- Fiscal Policy in Sub Saharan Africa

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## **12. Nominal Rigidity [10 Hours]**

- Exogenous Nominal Rigidity
  - A Baseline case: Fixed prices
  - Price rigidity, wage rigidity, and departures from perfect competition in the goods and labour markets
  - Limitations of Equilibrium models
  - Quantity Constraint and rationing Models
- Microeconomic foundations of incomplete nominal adjustments
  - A model of imperfect competition and Price setting
  - Coordination failure models and Real Non- Walrasian Theories
  - Lucas imperfect information model
  - Staggered price adjustment; Calvo pricing



- Empirical application: International evidence on the output-inflation tradeoff

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