OUTLINE AND OBJECTIVE OF THE COURSE

The broad theme of the class is heterogeneous agent macro models. Most of the focus will be on firm heterogeneity but there will also be exploration of worker heterogeneity. Given the focus on firm heterogeneity, much attention will be given to models of firm dynamics and their aggregate implications. We will first explore basic facts about productivity heterogeneity, the size distribution of activity and the evolution of firms. We will then cover canonical models of the size distribution of firms as well as the dynamics of growth and survival. Turning to macro implications, we will consider the role of micro misallocation in accounting for aggregate fluctuations. In addition, we will consider the relationship between firm dynamics and labor market dynamics and will consider the role of adjustment costs for macro fluctuations.

TEXTBOOKS AND OTHER READING MATERIAL

Most of the course will be based on articles. There is not a required textbook for the course.
PREREQUISITES

ECON 601 and ECON 602. Students who have not taken these courses and/or students from other departments must talk to us before taking this course.

AUDITING POLICY

Students who have officially taken ECON 702 before or otherwise cannot take it for credit, are welcome to audit this course subject to the following stipulation and with prior approval from me. They are exempt from the take-home exams and the paper proposal requirements, although they can certainly choose to do them. Auditing students should attend lectures regularly and participate. Upper year students who have other commitments that might limit their participation should contact me for permission.

GRADING

Take-Home Exam (30%)

There will be a take home exam at the end of the semester. It will be distributed on the last day of class. You will have 2 days to turn in the exam. Although these are take-home (and of course open-book) exams, I expect you to work alone. Details will be provided at the time of the distribution.

Paper Proposal

(15%) for Pre-Proposal

(15%) for Presentation of the Proposal

(40%) for Final Proposal

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 702 and the specific topic must be approved by me. The first step is to come talk to me about your idea to get permission for the topic. Please come talk with me by March 9, 2016. The second step is to write a pre-proposal (2-3 pages). The pre-proposal is due by March 23, 2016. Feedback will be provided by April 1, 2016. The third step is that each student will make a 15 minute presentation during the last few weeks of the semester on their proposal/paper. The final proposal/paper will be due on May 18. 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 typically not 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 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. This proposal project is an excellent way to get started on the paper for the macro field requirement and/or the third year paper requirement.

READING LIST

Papers with (*) are the primary papers we will cover. The others are optional. Don’t print all these papers immediately. As we progress, it will become clear which ones you will study in greater detail.

I. Firm Dynamics and Aggregate Fluctuations

a. Basic Facts about Firm-level Productivity, Survival and Growth


b. Canonical Models of Firm Size Distribution and Dynamics


c. Productivity, Reallocation and Misallocation: Theory and Evidence


d. Firm Dynamics and Labor Market Dynamics


e. Adjustment Costs for Capital and Labor: Theory and Evidence


