Contents

	Lis	t of figures	ix
	Pre	eface	xi
1	Intr	roduction	1
	1.1	The issues 1	
	1.2	The national accounts identity 2	
	1.3	Outline 3	
	ART		
T	he L	ong Run	5
2	The	Malthusian World	7
	2.1	Introduction 7	
	2.2	The law of diminishing returns 7	
	2.3	The Malthusian trap 9	
	2.4	Endogenous fertility 11	
	2.5	The collapse of the Malthusian link 14	
3	The Solow Growth Model		19
	3.1	Introduction 19	
	3.2	Basic assumptions 19	
	3.3	Dynamics 20	
	3.4	Equilibrium 21	
	3.5	Implications 22	
	3.6	Extensions 25	
1	Endogenous Growth Theory		29
	4.1	Introduction 29	
	4.2	AK model 29	
	4.3	Endogenous technological change 30	
	4.4	Romer's product variety model 34	

	4.5	Schumpeterian growth models 39	
	4.6	Innovation versus imitation 40	
5	The 6	Overlapping Generations Model	42
	5.1	Household optimization 42	
		Endogenous saving 47	
	5.3	Endogenous growth 49	
PAI	RT II		
Th	e Sho	rt and Medium Run	51
6	Equi	librium Business Cycles	53
	6.1	Technology shocks to production 53	
	6.2	Labor demand 55	
	6.3	Households 55	
7	Fina	ncial Crises	58
	7.1	Basic assumptions 58	
	7.2	Banks 59	
	7.3	A bank run equilibrium 61	
	7.4	Foreign credit 62	
	7.5	Short-term debt 63	
	7.6	Liberalizing international credit markets 64	
8	Consumption and Saving		65
	8.1	The Keynesian consumption function 65	
	8.2	Friedman's critique 66	
	8.3	The permanent income hypothesis 66	
	8.4	An example 68	
	8.5	The random-walk model 71	
	8.6	Precautionary saving 73	
	8.7	Interest rates and time discount rates 75	
	8.8	Relative consumption 77	
	8.9	Time inconsistency 78	
9	Investment and Asset Markets		80
	9.1	The Keynesian investment function 80	
	9.2	The firm's investment decision 80	
	9.3	Adjustment costs 83	
	9.4	The housing market 85	
10	Une	mployment and the Labor Market	88
	10.1	Labor market disequilibrium 88	

	10.4	Insider–outsider models 94	
	10.5	Search and matching models 95	
PA	RT III	I	
M	acroe	conomic Policy	99
11	IS-N	101	
	11.1	Aggregate expenditure and the multiplier 101	
	11.2	The IS-MP model 103	
	11.3	Aggregate demand 105	
	11.4	Aggregate supply 106	
	11.5	Financial intermediation 110	
	11.6	New Keynesian models 114	
12	Public Finance and Fiscal Policy		115
	12.1	The government budget identity 115	
	12.2	Ricardian equivalence 116	
	12.3	Tax smoothing 117	
	12.4	Political economy of government debt 118	
	12.5	Debt financing versus debt forgiveness 121	
13	Inflation and Monetary Policy		126
	13.1	The quantity theory of money 126	
	13.2	Inflation and the money market 127	
	13.3	Time inconsistency in monetary policy 127	
	13.4	Political business cycles 132	
	13.5	The Taylor rule 136	
	13.6	Seigniorage 137	
14	The	139	
	14.1	Open economy accounting 139	
	14.2	A representative agent framework 141	
		The Mundell-Fleming model 144	
		Exchange rate overshooting 146	
	14.5	Currency unions 148	
15	Math	150	
	15.1	Introduction 150	
	15.2	Derivatives of some basic functions 150	
		Differentiation rules 151	
	15.4	Chain differentiation 152	

10.2 Efficiency wages 89

10.3 The Shapiro-Stiglitz model 90

Notes	156
Bibliography	161
Index	164

15.5 Implicit function differentiation 15315.6 Applications to macroeconomics 153

15.7 Basic properties of exponents and logarithms 154