PhD Topics in Macroeconomics  
(aka “Advanced Studies in Economics 2”)  
July 2014

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Course description

This is a second year graduate course in macroeconomics. The focus is on the aggregate implications of quantitative models of producer heterogeneity, with applications to firm dynamics, innovation and aggregate growth, cross-country income differences, and international trade.

Time permitting, we will also briefly discuss facts about wealth inequality and some models of wealth inequality dynamics.

Course organisation

The course will meet twice a week, Mondays 9:00–11:00am and Wednesdays 9:00–10:00am in Business & Economics room 605 (the Melbourne Institute seminar room). The course will begin meeting on Monday July 28. Copies of the readings and other course materials will be posted to the LMS.

Course requirements

<table>
<thead>
<tr>
<th>Task</th>
<th>Due date</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Problem set #1</td>
<td>in class, Monday August 18th</td>
<td>10%</td>
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<tr>
<td>Problem set #2</td>
<td>in class, Monday September 1st</td>
<td>10%</td>
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<tr>
<td>Problem set #3</td>
<td>in class, Monday September 15th</td>
<td>10%</td>
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<tr>
<td>Problem set #4</td>
<td>in class, Monday October 6th</td>
<td>10%</td>
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<tr>
<td>Referee reports (two)</td>
<td>in class, Monday October 20th</td>
<td>10% each</td>
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<tr>
<td>Research proposal presentation</td>
<td>week beginning Monday October 27th</td>
<td>40%</td>
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Your problem sets can be done either individually or in pairs. For each of the mock referee reports you choose (in consultation with me) a recent paper related to the course material. For the research proposal, your goal is (i) to develop and motivate a substantial research question inspired by this course, and (ii) to explain how that question can be answered.
**Firm dynamics: basic models** (4 Lectures, beginning July 29).

Introduction and course overview. Motivating facts about the firm size distribution and firm dynamics. Hopenhayn’s industry equilibrium model with entry and exit (firm turnover) but stationary firm distribution. General equilibrium versions of the Hopenhayn model.


Reminder: problem set #1 due in class Monday August 18th, based on lectures 1–4.

**Innovation and firm dynamics** (4 Lectures, beginning August 11).


Reminder: problem set #2 due in class Monday September 1st, based on lectures 4–8.

**Misallocation** (4 Lectures, beginning August 25).


Reminder: problem set #3 due in class Monday September 15th, based on lectures 9–12.

**Heterogeneous firms and trade** (6 Lectures, beginning September 8).


Reminder: problem set #4 due in class Monday October 6th, based on lectures 13–18.

**Aggregate gains from trade** (3 Lectures, beginning October 6).

Gravity equations. Gains from international trade in standard trade models. Endogenous markups and pro-competitive effects. Connection to misallocation. Importance of the joint distribution of markups and market shares.


○ **Arkolakis, Costinot, Donaldson and Rodríguez-Clare** (2012): The elusive pro-competitive effects of trade. MIT working paper.

‘Thoughts on Piketty’ (3 Lectures, beginning October 15).

Time-series and cross-country facts about wealth inequality, concentration. The Pareto connection. Implications of $r - g$ and all that. Some models of wealth inequality dynamics including background on Kolmogorov equations etc (all time permitting).


⋄ Benhabib, Bisin and Zhu (2013): The wealth distribution in Bewley models with investment risk, NYU working paper.

(and other notes to be distributed)

Both referee reports due by Monday October 20th.

Research proposal presentations to be scheduled for week beginning Monday October 27th.
Further Reading (aka “Some Ideas for Referee Reports”)


ALLEN AND ARKOLAKIS (2013): Trade and the topography of the spatial economy, NBER working paper.


ECKHOUT AND KIRCHER (2012): Assortative matching with large firms, LSE working paper.


Hsieh, Hurst, Jones and Klenow (2013): The allocation of talent and US economic growth, NBER working paper.


Sampson (2013): Dynamic selection and the new gains from trade with heterogeneous firms, LSE working paper.

Simonovska and Waugh (2014): Trade models, trade elasticities and the gains from trade. NYU working paper.