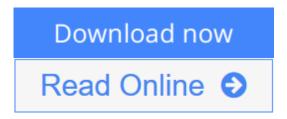


# **Dynamic Macroeconomic Theory**

By Thomas J. Sargent



### Dynamic Macroeconomic Theory By Thomas J. Sargent

The tasks of macroeconomics are to interpret observations on economic aggregates in terms of the motivations and constraints of economic agents and to predict the consequences of alternative hypothetical ways of administering government economic policy. General equilibrium models form a convenient context for analyzing such alternative government policies. In the past ten years, the strengths of general equilibrium models and the corresponding deficiencies of Keynesian and monetarist models of the 1960s have induced macroeconomists to begin applying general equilibrium models.

This book describes some general equilibrium models that are dynamic, that have been built to help interpret time-series of observations of economic aggregates and to predict the consequences of alternative government interventions. The first part of the book describes dynamic programming, search theory, and real dynamic capital pricing models. Among the applications are stochastic optimal growth models, matching models, arbitrage pricing theories, and theories of interest rates, stock prices, and options. The remaining parts of the book are devoted to issues in monetary theory; currency-in-utility-function models, cashin-advance models, Townsend turnpike models, and overlapping generations models are all used to study a set of common issues. By putting these models to work on concrete problems in exercises offered throughout the text, Sargent provides insights into the strengths and weaknesses of these models of money. An appendix on functional analysis shows the unity that underlies the mathematics used in disparate areas of rational expectations economics.

This book on dynamic equilibrium macroeconomics is suitable for graduate-level courses; a companion book, Exercises in *Dynamic Macroeconomic Theory*, provides answers to the exercises and is also available from Harvard University Press.



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#### Dynamic Macroeconomic Theory By Thomas J. Sargent Bibliography

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#### **Editorial Review**

#### Review

A new book by Sargent is an important event for macroeconomists. His *Macroeconomic Theory*...has influenced teaching and research in graduate schools for nearly a decade. His new book, quite different from the first one, is likely to have as much influence. It is an important book...well-written and well-organized, and each chapter is followed by exercises, some of which apply the chapter's models and advance them in new directions...The approach to macroeconomics taken by Sargent in this book is relatively new, and most of the fundamental questions of macro are still unsettled...The approach advocated by Sargent...gives hope that answers to these questions may be possible. (Christopher A. Pissarides *Economica*)

Describes and illustrates several dynamic general equilibrium models and applies them to problems in macroeconomics and monetary economics...Introduces discounted dynamic programming, the theory of search, and asset prices and consumption. Then focuses on monetary economics and government finance. Introduces currency in the utility function model and considers and uses cash-in-advance models as well as models that relate to credit and currency with long-lived agents and with overlapping generations. The last chapter discusses government finance in stochastic overlapping generations models. Each chapter contains exercises and suggested readings. (*Journal of Economic Literature*)

#### **Users Review**

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#### **Christine Brooks:**

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# Ronald Sadowski:

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## **Margaret Watt:**

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