ECON 5570
TuTh 11:00 am-12:50 PM, G003, CYT Bldg

Advanced Topics in Macroeconomics

Instructor: Pengfei Wang
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Syllabus

Course Overview

The objective of this course is to study the implications of financial market imperfections for macroeconomics and finance. These imperfections include uninsurable idiosyncratic risks, asymmetric information, moral hazard, agency costs, adjustment costs, and taxation. I will teach half of the class focusing the theoretical foundation of financial imperfections and their qualitative implications. The students are expected to present papers for the rest the class. Computational methods are necessary for solving and estimating the models presented in class. The best way to learn computational and empirical methods is learning-by-doing. Thus, students are expected to complete a computation/estimation project.

Motivated MSc students are also welcomed to take the course. The instructor will provide enough background training for students who are not familiar with the modern business cycle theory.

Course Requirements and Grading

Class attendance is required. Students are also expected to present recent research papers and replicate some published papers. The final course performance is based on the following weights:

- Class participation and presentation: 50%. Each students need to present at least one paper from the paper list which is marked with *, or a paper which is not in the list after explicit permission from instructor.

- Computation project: 50%: students who enroll in the class need to replicate one paper. The paper can either in the list or not in the list. In the later case, permission from instructor is needed.

Course Outline/ Schedule

Standard RBC Theory Model (3 weeks)

- Lecture note on Calibration, log-linearization, and solution methods.
- Persistence and Comovement
- Lecture on how to use Dynare
Financial Intermediaries and Business Cycles

Introduction (1 week)


Theory (two weeks)

- Lecture notes on Trade off(Tax Benefit VS bankruptcy cost ) Theory

Application (Student Presentation)

- *Gertler, Mark and Nobuhiro Kiyotaki, 2010, Financial Intermediation and Credit Policy in Business Cycle Analysis, working paper, NYU
• *Gertler, Mark and Peter Karadi, 2010, A Model of Unconventional Monetary Policy, working paper, NYU
• *Kosuke Aoki, Gianluca Benigno and Nobuhiro Kiyotaki, 2009, Adjusting to Capital Account Liberalization.

**Asset Pricing and Real Economy (Student Presentation)**

• *Caldara, Dario, Jesus Fernandez-Villarerde, Juan F. Rubio-Ramirez, and Yao Wen, 2009, Computing DSGE Models with Recursive Preferences, working paper, U. Penn.
• *Gomes and Michaelides Review of Financial Studies, David Asset Pricing with Limited Risk Sharing and Heterogeneous Agents

**Financial Crisis, Bubbles and Crashes**
Rational Bubbles (Two weeks,)

- Allen, F. and Gale, D., 2007, Understanding Financial Crises, Oxford University
- Pengfei Wang and Wen Yi, Speculative Bubbles and Financial Crisis, AEJ Macro: forthcoming.
- Jianjun Miao and Pengfei Wang, 2018 Asset Bubbles and Credit Constraints, AER.
- Monetary Policy and Rational Asset bubbles, Jordi Gali, 2014, AER.
- *Lorenzoni and Hellwig, Bubbles and Self-Enforcing Debt, Econometrica, 2009

Speculative Bubbles (One week)


Bank Run and Crises (one week)


Credit Externality (one week)

• Guido Lorenzoni (2008), “Inefficient Credit Booms”, The Review of Economic Studies (Links to an external site.), 75, No. 3, Jul., 2008 (Links to an external site.)
• Korinek, Anton, 2009, "Regulating Capital Flows to Emerging Markets: An Externality View," manuscript, Department of Economics, University of Maryland.

Aggregate Liquidity (Student Presentation)

• Brunnermeier, M., Deciphering the 2007/8 Liquidity and Credit Crunch, 2009.
• Douglas W. Diamond and Raghuram G. Rajan, Fear of fire sales and the credit freeze, Forthcoming at QJE.

Information Frictions

• Stephen Morris and Hyun Song Shi, Global Games: Theory and Applications.
• Jess Benhabib, Pengfei Wang and Yi Wen, Uncertainty and Sentiment-Driven Equilibria, Econometrica, Volume 83, Issue 2, (Links to an external site.)Pages 549–585, March 2015

Student Presentation

• Michael Sockin and Xiong Wei, Informational Frictions and Commodity Markets, Journal of Finance, Forthcoming