Description

Course objective: 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.

Learning objective: The learning objective is for students to be familiar with frontier research topics and to find suitable thesis topics. Also the students are expected to learn how to present their research ideas.

Teaching and learning activities The instructor 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 requirement and Grading policy:

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 be in the list or not in the list. In the later case, permission from instructor is needed.

Enrollment requirement: Students should be familiar with Econ 5100, Econ 5210 and Econ 5250.

Course Outline/ Schedule

Financial Intermediaries and Business Cycles

Introduction (1 week)


Theory (two weeks)

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

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., 2008, Financial Crisis, Edward Elgar Publishing Ltd.
• 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.
• Jianjun Miao, Pengfei Wang, Zhiwei Xu, 2015, A Bayesian DSGE Model of Stock Market Bubbles and Business Cycles, Quantitative Economics.
• Monetary Policy and Rational Asset bubbles, Jordi Gali, 2014, AER.
• *Lorenzoni and Hellwig, Bubbles and Self-Enforcing Debt, Econometrica, 2009

Speculative Bubbles (One week)
• Tirole, Jean, 1982, On the Possibility of Speculation under Rational Expectations, Econometrica 50, 1163-1182.

**Bank Run and Crises (one week)**

**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.

**Student Presentation**

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