

12I010

3 ECTS

Contemporary Macroeconomic Problems

Overview and Objectives

This course provides in-depth analysis of selected topics. Its goal is to teach students how to use formal models to think about real world problems. For each topic or problem, the course derives theoretical results, reviews the empirical evidence and draws policy implications. This year the course focuses on the macroeconomic effects of credit and asset bubbles. The first part develops a theoretical framework to think about the interactions between credit and asset bubbles, and how these interactions give rise to business cycles. The second part uses this framework to interpret the emergence of global imbalances and their effects, the Financial crisis of 2007-08, and the ongoing sovereign debt crisis in Europe. All readings will be covered in class. Starred readings are those, which will be covered in more detail.

Course Outline

0. A chronology of the 2007-2008 Financial crisis

Gorton, G., "The Panic of 2007" in Maintaining Stability in a Changing Financial System, Proceedings of the 2008 Jackson Hole Conference, Federal Reserve Bank of Kansas City.

Brunnermaier, M., "Deciphering the Liquidity and Credit Crunch 2007-08" Journal of Economic Perspectives, 2009.

1. The microeconomics of Financial innovation and leverage

Diamond, D. "Banks and Liquidity Creation: A Simple Exposition of the Diamond-Dybvig Model" Federal Reserve bank of Richmond Economic Quarterly, 2007.

Shin, H. S. "Reflections on Northern Rock: The Bank Run that Heralded the Global Financial Crisis" Journal of Economic Perspectives, 2009.

Shleifer, A., and R. Vishny, "Fire Sales in Finance and Macroeconomics" Journal of Economic Perspectives, 2011.

Coval, J., J. Jurek and E. Stafford, "The Economics of Structured Finance" Journal of Economics Perspectives, 2009.

Stulz, R., "Credit Default Swaps and the Credit Crisis" Journal of Economic Perspectives, 2010.

Fostel, A. and J. Geanakoplos, "Tranching, CDS, and Asset Prices: How Financial Innovation Can Cause Bubbles and Crashes" American Economic Journal: Macroeconomics, 2012.

Gennaioli, N., A. Shleifer and R. Vishny, "A Model of Shadow Banking" manuscript, 2011.

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2. The macroeconomics of credit and bubbles

Claessens, S., M. Kose, and M. Terrones, "What Happens During Recessions, Crunches and Busts" Economic Policy, 2009.

Claessens, S., M. A. Kose, and M. E. Terrones, "Financial Cycles: What? How? When?" IMF Working Papers, 2011.

Bernanke, B. and M. Gertler, "Agency Costs, Net Worth, and Business Fluctuations" American Economic Review, 1989.

Azariadis, C. and B. Smith, "Financial Intermediation and Regime Switching in Business Cycles" American Economic Review, 1998.

Matsuyama, K., "Credit Traps and Credit Cycles" American Economic Review, 2007.

Leroy, S., "Rational Exuberance" Journal of Economic Literature, 2004.

Martin, A. and J. Ventura, "Economic Growth with Bubbles" American Economic Review, 2011.

Martin, A. and J. Ventura, "Bubbly Collateral and Economic Activity" working paper, 2013.

Martin, A. and J. Ventura, "Theoretical Notes on Bubbles and the Current Crisis" IMF Economic Review, 2011.

Required Activities

TO BE DETERMINED BY PROFESSOR

Evaluation

Final Exam

Materials

All readings will be covered in class. Starred readings are those, which will be covered in more detail.