14.462 Advanced Macroeconomics
Spring 2014

Lectures: Tuesdays and Thursdays 1:00 - 2:30 (E51-361)

Recitations: Fridays 1:00-2:30 (E51-372)

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Website: https://stellar.mit.edu/S/course/14/sp14/14.462/

Contents:
The course shows how contract and general equilibrium theory can help our understanding of the functioning of financial markets, the occurrence of crises, and to evaluate the rationale for financial regulation. In particular, it emphasizes that identifying the nature of financial frictions is crucial to determining potential market failures and thinking about ex ante optimal design – we will see many instances in which markets achieve on their own constrained-optimal outcomes.

Requirements:
The grade will be based on class participation, a final exam and a combination of problem sets and referee reports.

Links to the development course:
The class has been designed to emphasize the links that exist between macro modeling and micro empirical work (data, institutions). Each Tuesday and Thursday, a development class is taught right after the macro class, in the same room and on the same topic. Students are encouraged to attend both lectures.
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<th>Lecture</th>
<th>14.462 Topic</th>
<th>14.772 Topic</th>
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<td>1-Apr</td>
<td>1 Tuesday Introduction</td>
<td>Introduction: micro-founded macro models</td>
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<td>3-Apr</td>
<td>2 Thursday Complete markets, full risk-sharing</td>
<td>Risk and Insurance in Village India</td>
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<td>4-Apr</td>
<td>Rec 1 Friday Complete markets, full risk-sharing</td>
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<td>8-Apr</td>
<td>3 Tuesday Macro and labor supply</td>
<td>Micro and labor supply</td>
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<td>10-Apr</td>
<td>4 Thursday Limited information: welfare theorems</td>
<td>Limited information: first-order approach, lotteries, and distinguishing regimes in data.</td>
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<td>11-Apr</td>
<td>Rec 2 Friday Limited information: welfare theorems</td>
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<td>15-Apr</td>
<td>5 Tuesday Industrial organization of financial services providers</td>
<td>Karlan-Zinman, Einav-Levin</td>
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<td>17-Apr</td>
<td>6 Thursday Limited commitment: theory</td>
<td>Limited commitment: empirics</td>
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<td>18-Apr</td>
<td>Rec 3 Friday Limited commitment: theory</td>
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<td>22-Apr</td>
<td>Patriot's Day Tuesday</td>
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<td>24-Apr</td>
<td>7 Thursday Macro and Financial Frictions</td>
<td>Development and Financial Frictions</td>
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<td>25-Apr</td>
<td>Rec 4 Friday Macro and Financial Frictions</td>
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<td>29-Apr</td>
<td>8 Tuesday Bank runs</td>
<td>Financial Stability in Emerging Markets with Financial Frictions</td>
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<td>1-May</td>
<td>9 Thursday Retrading and externalities</td>
<td>Platforms</td>
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<td>5-May</td>
<td>Rec 5 Friday Retrading and externalities</td>
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<td>6-May</td>
<td>10 Tuesday Incomplete markets, banks, and default</td>
<td>Incomplete markets and consumption</td>
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<td>8-May</td>
<td>11 Thursday Bubbles: theory</td>
<td>Bubbles: empirics</td>
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<td>9-May</td>
<td>Rec 6 Friday Bubbles: theory</td>
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<td>13-May</td>
<td>12 Tuesday Foundations of money</td>
<td>Cash management</td>
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<td>15-May</td>
<td>Thursday</td>
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(1) April 1 – Introduction

Past

Present: in the US

Future

(2) April 3 - Complete markets, full risk-sharing


(3) April 8 - Macro and labor supply

• Hansen, Gary D. “Indivisible labor and the business cycle”, Journal of Monetary


Related papers

- Mike Keane and Richard Rogerson (2012). Reconciling Micro and Macro Labor Supply Elasticities: A Structural Perspective (sections 1, 2, 4.1, the rest is XR)

(4) April 10 - Limited information: welfare theorems


(5) April 15 – Industrial Organization of Financial Service Providers


(6) April 17 - Limited commitment: theory


(7) April 24 – Macro and Financial Frictions

• Di Tella, S., 2013. Uncertainty Shocks and Balance Sheet Recessions. Manuscript, Stanford GSB

(8) April 29 – Banks Runs


(9) May 1 – Retrading and externalities

• Hart, O. and L. Zingales, 2013. Liquidity and Inefficient Investment, Manuscript

(10) May 6 – Incomplete markets, banks, and default


(11) May 8 – Bubbles: theory

• Samuelson, P.A., 1958. An Exact Consumption-Loan Model of Interest with or


(12) May 13 – Foundations of money