14.462 Advanced Macroeconomics
Spring 2016

Lectures: Tuesdays and Thursdays 2:30 - 4:00 (E51-372)

Recitations: Fridays 1:00-2:30 (E51-376)

Instructor: Robert Townsend, E17-230, rtownsen@mit.edu

Teaching Assistant: Dejanir Silva,
with RA assistance from Nicolas Caramp
Website: http://stellar.mit.edu/S/course/14/sp16/14.462/index.html

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 and get insights about ideal ways to intervene when they do not

Requirements:
The grade will be based on class participation and a combination of problem sets and a research paper/proposal.
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INTRODUCTION (LECTURE 1)

- Bagehot, W., 1873. Lombard Street: A description of the money market, Henry S. King & Co.
- Strategic market design literature
TOPIC 1 – MEASUREMENT, MAPPING THE FINANCIAL SYSTEM (LECTURE 2)


• Samphantharak, K., 2006. Internal capital markets in business groups. *Available at SSRN 975562*.


• http://www.federalreserve.gov/apps/fof/efa/enhanced-financial-accounts.htm

• https://www8.nationalacademies.org/cp/projectview.aspx?key=49725

• http://www.cfsp.org/research/workshops/flow-funds-accounts-and-savings-workshop

• http://www.cfsp.org/research/research-projects/regional-approach-financial-savings-and-intermediation#.VqKWnTZIlBx

**TOPIC 2 - THEORY AND DATA (LECTURE 3)**


• Walras, Leon, 1699, Elements of pure economics (translated by William Jaffe from the original French version, 1874) (Kelley, New York).
• [http://www.me.utexas.edu/~jensen/or_site/models/unit/network/net8.html](http://www.me.utexas.edu/~jensen/or_site/models/unit/network/net8.html)
Macro and Financial Frictions


Bubbles: theory


TOPIC 3 - IMPLEMENTATION WITHOUT OBSTACLES (LECTURE 4)

- Chicago Board of Trade, 1982. Grains, production, processing, marketing.
- Geanakoplos, John, April 2010. The Leverage Cycle, University of Chicago
TOPIC 4 – RISK SHARING (LECTURE 5)

• [https://en.wikipedia.org/wiki/Mutual_insurance](https://en.wikipedia.org/wiki/Mutual_insurance)
• [http://www.nytimes.com/2015/05/03/magazine/want-a-steady-income-theres-an-app-for-that.html?_r=1](http://www.nytimes.com/2015/05/03/magazine/want-a-steady-income-theres-an-app-for-that.html?_r=1)
**Macro and labor supply**

- Rogerson, Richard “Indivisible labor, lotteries and equilibrium”, *Journal of Monetary Economics,* Volume 21, Issue 1, January 1988, Pages 3-16.

**Incomplete markets, banks, and default**


**TOPIC 5 - PRIVATE INFORMATION AND LIMITED COMMITMENT (LECTURES 6 & 7)**

• http://www.crossratetechnologies.com/u-s-treasury-dealers/symbiotic-dealer-relationships-benefits-the-client/
Banks Runs


**TOPIC 6 – DECENTRALIZATION WITH OBSTACLES (LECTURE 8)**

• Townsend, R.M. and Zhorin, V.V., 2014. Spatial competition among financial service providers and optimal contract design.
• http://techonomy.com/2014/02/lenddos-borrowers-mexico-philippines-get-credit-via-facebook/

**Limited commitment: theory**


**Industrial Organization of Financial Service Providers**

TOPIC 7 - PLATFORMS (LECTURES 9 & 10)


**Retrading and externalities**

- Kilenthong, W. and Townsend, R., 2014. Segregated Security Exchanges with Ex...


**TOPIC 8 - MONEY, LIQUIDITY (LECTURES 11 & 12)**


- Drechsler, I., Savov, A. and Schnabl, P., 2014. The Deposits Channel of Monetary Policy. Available at SSRN.


• Martin, A. and McAndrews, J., 2010. A study of competing designs for a liquid-
*Econometrica*, 42(6), pp.1093–1113.
• Perez-Verdia, Carlos. 2000. “Transaction Costs and Liquidity.” University of Chi-
cago, PhD dissertation.
• Quinn, S. and Roberds, W., 2006. An economic explanation of the early Bank of 
Amsterdam, debasement, bills of exchange, and the emergence of the first central 
bank.
• Romer, David. 1987. “The Monetary Transmission Mechanism in a General Equi-
librium Version of the Baumol-Tobin Model.” Journal of Monetary Economics 20 
(July): 105–22.
• Rotemberg, Julio J. 1984. “A Monetary Equilibrium Model with Transactions 
• Sargent, Wallace (1982), “The real-bills doctrine versus the quantity theory: A re-
consideration”, The Journal of Political Economy
• Shapley, L. & Shubik, M., 1977. Trade Using One Commodity as a Means of 
• Townsend, Robert M., (1980) "Models of Money with Spatially Separated 
Agents", In: Models of Monetary Economies, ed. by J. H. Kareken and Neil Wal-
lace, Minneapolis: Federal Reserve Bank of Minneapolis, pp. 265--304.
American Economic Review*, pp.954-971.
• Townsend, Robert. 1989. “Currency and Credit in a Private Information Eco-
• Townsend, R.M., 1990. Financial structure and economic organization. Black-
well.
• R Townsend, N Wallace, "Circulating Private Debt: An Example with Coordina-
• Wallace, N., 2014. Optimal money creation in “pure currency” economies: a con-
• Woodford, M., 1990. Chapter 20 - The Optimum Quantity of Money. In B. M. 