14.772 Development Economics: Macroeconomics  
Spring 2016

Lectures: Tuesdays and Thursdays 2:30-4:00 (E51-151)

Recitations: Thursdays 1:00-2:00 (E51-393)

Instructor: Robert Townsend. E52-538, rtownsen@mit.edu  
Office hours: Immediately after class

Teaching Assistant: Ashish Shenoy, E52-570, ashenoy@mit.edu  
Office hours: Mondays 1:00-2:00

Website: http://stellar.mit.edu/S/course/14/sp16/14.772/index.html

Contents:
The course shows how contract and general equilibrium theory can help our understanding of the functioning of financial markets, financial access and individual welfare, 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.
• [https://www.trumid.com](https://www.trumid.com)

TOPIC 1 – MEASUREMENT, MAPPING THE FINANCIAL SYSTEM (LEC. 2)

• Samphanthararak, 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.cfps.org/research/workshops/flow-funds-accounts-and-savings-workshop
• http://www.cfps.org/research/research-projects/regional-approach-financial-savings-and-intermediation#.VqKWnTZIlBx

TOPIC 2 - THEORY AND DATA (LECTURE 3)

- Woodford, M., 1998. Doing without money: controlling inflation in a post-

- [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)

### Bubbles: theory


### TOPIC 3 - IMPLEMENTATION WITHOUT OBSTACLES (LECTURE 4)

- Chicago Board of Trade, 1982. Grains, production, processing, marketing.
- Shapley, L. & Shubik, M., 1977. Trade Using One Commodity as a Means of


**TOPIC 4 – RISK SHARING (LECTURE 5)**

  
http://www.cmegroup.com/trading/weather/  
https://en.wikipedia.org/wiki/Shared_appreciation_mortgage  
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

**Macro and labor supply**

• Ljungqvist, L. and T. Sargent, “Career Length: Effects of Curvature of Earnings

**Incomplete markets, banks, and default**

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


http://www.investopedia.com/terms/e/etf.asp

Banks Runs


**TOPIC 6 - PLATFORMS (LETURES 8 & 9)**


**Retrading and externalities**


**TOPIC 7 - MONEY, LIQUIDITY (LECTURE 10)**

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


