Advanced Topics in Macro: Financial Frictions
Econ 712

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T-Th 10:30-12pm

Coverage: This course studies the role that financial frictions play in resource allocation. We warm up with complete markets, and then cover various incomplete market models before turning to income information and then to some topics that I thought were interesting.

Covid: Because I anticipate we may still be operating under the shadow of the COVID epidemic, the course may operate somewhat differently than in past years. I plan on having a well developed set of slides and possibly relying more on various assignments for grading. However, I think we can use the new Ipad technology to run effective Zoom classes.

Textbook: Ljungqvist and Sargent, Recursive Macroeconomic Theory.

Tentative Syllabus

1. Complete Markets
   (a) Arrow-Debreu
   (b) Arrow sequential Markets
   (c) AD = A
   (d) Recursive Competitive Equilibrium
   (e) Asset Pricing
   (f) Cost of Business Cycles

2. Incomplete Market Models
   (a) Standard Bewley Model
   (b) Sovereign debt with default
   (c) Krusell-Smith Model
   (d) Adding in default Chatterjee-Corbae-Rios-Rule.
   (e) More on Preferences: Epstein- Zin, Prudence, etc.

3. Limited Commitment Models
(a) Standard Model
(b) Kehoe-Levine Eq. and Alvarez-Jermann decentralization
(c) International RBC with limited commitment

4. Asset trading technologies and the macroeconomy
   (a) More on asset pricing and finance
   (b) Chien-Cole-Lustig Model

5. Optimal Taxation w/ Incomplete Mkts
   (a) Ramsey Taxation review
   (b) Optimal Taxation w/out State Contingent Debt - AMSS

6. Models with Private Information
   (a) Insurance with PI
   (b) Repeated Moral Hazard
   (c) Mirrleesian Taxation

7. Markets with Incomplete Information
   (a) Grossman-Stiglitz
   (b) Morris-Shinn
   (c) Information Aggregation: Angeletos and Werning
   (d) Guerrieri et al
   (e) Lester Shourideh, etc.

8. Firm models with financial constraints
   (a) Furest: Liquidity, Loanable Funds and Real Activity
   (b) Bernake and Gertler, ”Agency Costs, Net Worth and Business Fluctuations,” AER 1989.

9. More to Follow