

Advanced Topics in Macro: Financial Frictions

Revised 11/27

Econ 712

Prof. Harold Cole
Ronald O. Perelman Center
colehl@upenn.edu

Spring 2023
T-Th 10:30-12pm
Location ?

Coverage: This course studies the role that frictions, particularly financial frictions, play in resource allocation. I am going to suggest some material to cover, based on topics I am currently or have recently worked on. But I am open to your suggestions as well.

Recently, I have been working on: (i) Sovereign Default- e.g. Aguiar, Mark, et al. "Self-fulfilling debt crises, revisited." *Journal of Political Economy* 130.5 (2022): 1147-1183, (ii) Sovereign Debt Auctions - e.g. Cole, Harold, Daniel Neuhann, and Guillermo Ordonez. "Asymmetric Information and Sovereign Debt: Theory Meets Mexican Data." *Journal of Political Economy* 130.8 (2022): 2055-2109, and (iii) computational models of asset prices and the macroeconomy - e.g. Chien, YiLi, Harold Cole, and Hanno Lustig. "A multiplier approach to understanding the macro implications of household finance." *The Review of Economic Studies* 78.1 (2011): 199-234, (iv) Sustaining cooperative arrangements when the deviating coalitions have symmetric contracting opportunities; e.g. Cole, Harold L., et al. "Trust in Risk Sharing: A Double-Edged Sword." (2022).

Currently, I am trying to sort out how to mate the auction model of CNO with a standard quantitative sovereign default model, like Arellano. I plan on talking through aspects of that project and how to implement it.

Textbook: The main textbook is Ljungqvist and Sargent, *Recursive Macroeconomic Theory*. But this is just for background reading, and I will also suggest some other readings below.

Tentative Syllabus

1. Preferences - review several preference models which are heavily used

- Backus, David K., Bryan R. Routledge, and Stanley E. Zin. "Exotic preferences for macroeconomists." *NBER Macroeconomics Annual* 19 (2004): 319-390.

2. Asset Pricing - cover essentials

- Cochrane *Asset Pricing*
- Guiro - rare disasters
- Bansal-Yaron - Long Run Risks

- Cambell-Cochrane - habits

3. Incomplete Market Models + Default

- Sovereign debt with default - additional readings Aguiar and Amador *Sovereign Debt: A Review*
- **Arellano - sort out code in https://julia.quantecon.org/multi_agent_models/arellano.ht**
- Aguiar, Chatterjee, Cole and Stangebye
- Morelli, Juan M., Pablo Ottonello, and Diego J. Perez. "Global banks and systemic debt crises." *Econometrica* 90.2 (2022): 749-798.
- World Financial Cycles, Bai et al

4. Models with Private Information

- Grossman-Stiglitz
- Auction models: Cole, Neuhan, and Ordonez
- **Mate Arellano model with CNO pricing.**

5. Limited Commitment Models

- Standard Model
- Kehoe-Levine Eq. and Alvarez-Jermann decentralization
- Hellwig-Lorenzoni
- International RBC with limited commitment
- Group deviations - Cole, Krueger, Mailath and Park.

6. Asset trading technologies and the macroeconomy

- Optimal Taxation w/out State Contingent Debt - AMSS
- Chien-Cole-Lustig Model