

Advanced Macroeconomics (70426)

Professor Wyatt J. Brooks

University of Notre Dame

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Course Information

Class Time:	Tuesday and Thursday, 9:30 – 10:45
Location:	824 Flanner Hall
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Course Overview

This course is about macroeconomic models of financial frictions, broadly defined. We will discuss many different types of financial frictions and how they differ in their implications. We will consider different contexts in which financial frictions may play an interesting role, such as firm dynamics, international capital flows, lending crises, etc.

This course is also meant to improve the skills students need to be professional economists, such as developing research ideas, presenting academic research and writing. As such, instead of problem sets or exams, students will give presentations in class on research papers that interest them, and they will develop research ideas, write a preliminary paper on that idea, and give a presentation in class on these ideas. All of these items will receive intense feedback from all class participants.

The papers listed in the syllabus are a sample of some of the papers that may be presented either by the instructor or by the students. It is very unlikely that we will get to all of these papers this semester. Likewise, other papers may be added to suit the interests of the class. Students are encouraged to suggest papers they are interested in if they do not appear on this list.

Syllabus

Canonical Models of Financial Frictions

Evans, D. and B. Jovanovic (1989), "An Estimated Model of Entrepreneurial Choice Under Liquidity Constraints", *Journal of Political Economy*, 97(4), 808-827.

Kiyotaki, N. and J. Moore (1997), "Credit Cycles", *Journal of Political Economy*, 105(2), 212-248

Kehoe, T. and D. Levine (1993), "Debt-Constrained Asset Markets", *Review of Economic Studies*, 60(4), 865-888.

Alvarez, F. and U. Jermann (2000), "Efficiency, Equilibrium and Asset Pricing with Risk of Default", *Econometrica*, 68(4), 775-797.

Albuquerque, R. and H. Hopenhayn (2004), "Optimal Lending Contracts and Firm Dynamics", *Review of Economic Studies*, 71(2), 285-315.

Hopenhayn, H. and I. Werning (2008), "Endogenous Default", unpublished working paper. URL: <http://economics.mit.edu/files/2620>

Marcet, A. and R. Marimon (2011), "Recursive Contracts", unpublished working paper. URL: www.iae.csic.es/investigadoresMaterial/a12204091937archivoPdf46638.pdf

Rampini, A. and S. Viswanathan (2010), "Collateral, Risk Management, and the Distribution of Debt Capacity", *Journal of Finance*, 65(6), 2293-2322.

Quantitative Models of Financial Frictions

Cooley, T., R. Marimon and V. Quadrini (2004), "Aggregate Consequences of Limited Contract Enforcement", *Journal of Political Economy*, 112(4), 817-847.

Jermann, U. and V. Quadrini (2012), "Macroeconomic Effects of Financial Shocks", *American Economic Review*, 102(1), 238-271.

International Finance Applications

Bulow, J. and K. Rogoff (1989), "Sovereign Debt: Is to Forgive to Forget?", *American Economic Review*, 79(1), 43-50.

Hellwig, C. and G. Lorenzoni (2009), "Bubbles and Self-Enforcing Debt", *Econometrica*, 77(4), 1137-1164.

Jeske, K. (2006), "Private International Debt with Risk of Repudiation", *Journal of Political Economy*, 114(3), 576-593.

Bai, Y. and J. Zhang (2010), "Solving the Feldstein-Horioka Puzzle with Financial Frictions", *Econometrica*, 78(2), 603-632.

Agency Cost Models

Bernanke, B., M. Gertler and S. Gilchrist (1999), "The Financial Accelerator in a Quantitative Business Cycle Framework", *Handbook of Macroeconomics*, 1, Taylor, J. and M. Woodford eds.

Bernanke, B., M. Gertler and S. Gilchrist (1996), "The Financial Accelerator and the Flight to Quality", *Review of Economics and Statistics*, 78(1), 1-15.

Carlstrom, C. and T. Fuerst (1997), "Agency Costs, Net Worth, and Business Fluctuations: A Computable General Equilibrium Analysis", *American Economic Review*, 87(5), 893-910.

Entrepreneurship Applications

Buera, F., J. Kaboski and Y. Shin (2011), "Finance and Development: A Tale of Two Sectors", *American Economic Review*, 101(5), 1964-2002.

Buera, F. and Y. Shin (2013), "Financial Frictions and the Persistence of History: A Quantitative Exploration", *Journal of Political Economy*, 121(2), 221-272.

Moll, B. (2014), "Productivity Losses from Financial Frictions: Can Self-Financing Undo Capital Misallocation?", forthcoming *American Economic Review*.

News about Future Productivity

Jermann, U. and V. Quadrini (2007), "Stock Market Boom and the Productivity Gains of the 1990s", *Journal of Monetary Economics*, 54(2), 413-432.