

14E028

6 ECTS

## Advanced Macroeconomics III

### Overview and Objectives

#### PART I

This part of the course will focus on the interaction of financial markets and the macroeconomy. Its goal is to examine some workhorse models, emphasizing both their theoretical foundations and their empirical relevance. All readings below are required.

#### PART II

The second part of the course will provide an overview of the literature on monetary aspects of the business cycle, with a special emphasis on optimizing sticky price models, their associated inflation dynamics, and their implications for monetary policy. We will cover both the main theoretical models as well as some relevant empirical evidence. Lecture notes and problem sets will be handed out during the course.

### Course Outline

#### PART I

1. Credit, asset prices and business cycles.
2. Financial markets and economic growth.
3. Financial globalization and its effects.

#### PART II

1. The Classical Monetary Model
2. The Basic New Keynesian Model
3. Monetary Policy Design in the Basic New Keynesian Model
4. Extensions

### Required Activities

#### PART I

There will be three problem sets to help you understand the material and prepare for the exam.

#### PART II

There will be weekly problems sets.

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### Requirements to take this course:

Students who register for the course must have taken and passed Advanced Macroeconomics I and II.

### Evaluation

Final exam (100%) covering both parts

### Materials

#### PART I

I will update the reading list as we go along, so please check the course website for updates. Some readings will be covered in class, and you are responsible for understanding them in detail. All other readings will be only briefly discussed in class, and you are therefore responsible only for their global content.

#### I. Credit, asset prices and business cycles

Bernanke, Ben S., "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," *American Economic Review*, 1983.

Claessens, S., A. Kose and M. Terrones, "Financial Cycles: What? How? When?" NBER International Seminar on Macroeconomics, University of Chicago Press, 2011.

Dell'Ariccia, G., D. Igan and L. Laeven, "Credit Booms and Lending Standards: Evidence from the Subprime Mortgage Market," *Journal of Money, Credit, and Banking*, 2012.

Mendoza, E. and M. Terrones, "An Anatomy of Credit Booms and their Demise", WP 18379, NBER, 2012.

Bernanke, B., and M. Gertler, "Agency costs, net worth, and business fluctuations," *American Economic Review*, 1989.

Azariadis, C. and B. Smith, "Financial Intermediation and Regime Switching in Business Cycles," *American Economic Review*, 1998.

Kiyotaki, N., and J. Moore, "Credit cycles," *Journal of Political Economy*, 1997.

Krishnamurthy, A., "Collateral Constraints and the Amplification Mechanism," *Journal of Economic Theory*, 2003.

Lorenzoni, G., "Inefficient Credit Booms," *The Review of Economic Studies*, 2008.

Martin, A. and J. Ventura, "Theoretical Notes on Bubbles and the Current Crisis", *IMF Economic Review*. 2011.

Gorton, G. and G. Ordonez, "Collateral Crises," *American Economic Review* 2014.

Asriyan, V., L. Laeven and A. Martin, "Collateral Booms and Information Depletion," CREI Working Paper, 2019.

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### II. Financial Markets and Economic Growth

Levine, R., "Finance and Growth: Theory and Evidence", in P. Aghion and S. Durlauf (eds.), *Handbook of Economic Growth*, Elsevier, 2006.

Acemoglu, D. and F. Zilibotti, "Was Prometheus Unbound by Chance? Risk, Diversification and Growth", *Journal of Political Economy*, 1997.

Bencivenga, V. and B. Smith, "Financial Intermediation and Endogenous Growth," *The Review of Economic Studies*, 1991.

Matsuyama, K., "Credit Traps and Credit Cycles," *American Economic Review*, 2007.

Ranciere, R., A. Tornell, and F. Westermann, "Systemic Crises and Growth," *Quarterly Journal of Economics*, 2008.

### III. Financial Globalization and its Effects

Taylor, A. and Obstfeld, M., *Global Capital Markets. Integration: Crisis and Growth*, Cambridge University Press, 2005, Chapters 1,2.

Henry, P., "Capital account liberalization: theory, evidence, and speculation," *Journal of Economic Literature*, 2007.

Kose, A., E. Prasad, K. Rogoff, and S. Wei, "Financial Globalization: A Reappraisal," IMF Working Paper 06/189, 2006.

Matsuyama, K. "Financial Market Globalization, Symmetry-Breaking, and Endogenous Inequality of Nations," *Econometrica*, 2004.

Martin, A. and F. Taddei, "Capital Flows and Credit Market Imperfections: A Tale of Two

Frictions", *Journal of International Economics*, 2013.

Martin, A. and J. Ventura, "The International Transmission of Credit Bubbles: Theory and Policy", *Journal of Monetary Economics*, forthcoming.

Caballero, R. and A. Krishnamurthy, "International and domestic collateral constraints in a model of emerging market crises," *Journal of Monetary Economics*, 2001.

Gertler, M., and K. Rogoff, "North-South lending and endogenous domestic capital market inefficiencies", *Journal of Monetary Economics*, 1990.

Caballero, R., E. Farhi, and P. Gourinchas, "An equilibrium model of 'global imbalances' and low interest rates," *American Economic Review*, 2008.

### PART II

The main textbook for the course is:

Galí, Jordi (2015): *Monetary Policy, Inflation, and the Business Cycle. An Introduction to the New Keynesian Framework*, Second edition, Princeton University Press (Princeton, NJ).

Additional readings will be assigned during the course.