

Abstract:

We consider alternative frameworks to think about financial frictions and aggregate economy activity in order to understand financial crisis, business cycle and public policy. The lecture begins with a historical overview of financial crisis and a basic financial accelerator model which emphasizes the interaction between borrowing constraint, asset price and aggregate production. Then, we introduce liquidity constraint in addition to borrowing constraint in order to examine unconventional monetary policy. Finally, we introduce financial intermediaries to study financial crisis credit policy and macro prudential policy. By developing these frameworks, we aim to understand the recent financial crisis and the roles of public policies.

Reading List:

Papers with (*) are emphasized in the lecture. Almost all my papers below are available at my Princeton homepage.

Lecture 1, 2: Historical Overview, Credit Cycles and Capital Flows

(*) Ben Bernanke. 1993. "The World on the Cross of Gold: A Review of 'Golden Fetters'." *Journal of Monetary Economics* 31: 251-267.

Carmen Reinhart and Kenneth Rogoff. 2009. *This Time is Different*. Pat V and VI. Princeton: Princeton University Press.

Ben Bernanke and Mark Gertler. 1989. "Agency Costs, Net Worth, and Business Fluctuation." *American Economic Review*. 14-31.

(*) Nobuhiro Kiyotaki and John Moore. 1997. "Credit Cycles." *Journal of Political Economy*. 211-248. (Mainly Sections I and II.)

Nobuhiro Kiyotaki. 1998. "Credit and Business Cycles." *Japanese Economic Review*: 18-35.

Ben Bernanke, Mark Gertler and Simon Gilchrist. 1999. "Financial Accelerator in a Quantitative Business Cycle Framework," in John Taylor and Michael Woodford (eds.) *Handbook of Macroeconomics*. Elsevier Science B.V. Amsterdam.

(*) Kosuke Aoki, Gianluca Benigno, and Nobuhiro Kiyotaki. 2009. "Capital Flows and Asset Prices," in *NBER International Seminar on Macroeconomics*. Available in my homepage.

Lecture 3, 4: Liquidity, Business Cycles and Monetary Policy

Nobuhiro Kiyotaki and John Moore. 2001. "Liquidity, Business Cycles and Monetary Policy." Manuscript of Clarendon Lecture 2.

(*) Nobuhiro Kiyotaki and John Moore. 2012. "Liquidity, Business Cycles and Monetary Policy."

(*) Marco Del Negro, Gauti Eggertsson, Andrea Ferrero and Nobuhiro Kiyotaki. 2012. "The Great Escape?"

Pablo Kurlat. 2013. "Lemon Markets and the Transmission of Aggregate Shocks." *American Economic Review*. 1463-89.

Simon Gilchrist and Egon Zakrajsek. 2012. "Credit Spread and Business Cycle Fluctuations: Evidence from Corporate Bond and Stock Markets." *American Economic Review*: 1692-1720.

Lecture 5, 6: Financial Crises, Credit Policy and Macro Prudential Policy

Mark Gertler and Peter Karadi. 2011. "A Model of Unconventional Monetary Policy," *Journal of Monetary Economics* 58: 17-38.

Mark Gertler and Nobuhiro Kiyotaki. 2010. "Financial Intermediation and Credit Policy in Business Cycle Analysis," in Benjamin Friedman and Michael Woodford (eds.) *Handbook of Monetary Economics*, Volume 3A. 547-599. Amsterdam: Elsevier.

(*) Mark Gertler, Nobuhiro Kiyotaki and Albert Queralto. 2012. "Financial Crises, Bank Risk Exposure and Government Financial Policy." *Journal of Monetary Economics* 59: S17-S34.

(*) Mark Gertler and Nobuhiro Kiyotaki. 2013. "Banking Liquidity and Bank Runs in an Infinite Horizon Economy," Mimeo, NYU and Princeton.

Zhinguo He and Arvind Krishnamurthy. 2012. "A Macroeconomic Framework for Quantifying Systemic Risk." Mimeo, Northwestern University.

Markus Brunnermeier and Yuliy Sannikov. 2014. "A Macroeconomic Model with a Financial Sector." *American Economic Review*. 379-421.