Economics 2010d, Part II

ECON 2010d

Spring 2024, Mondays and Wednesdays 1.30-2.45pm
March 4-April 24. No classes on March 11, 13 (Spring break).
Location: Littauer M15
[This version of the syllabus: 3/2/24]

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We will study a number of topics in macroeconomics.

Requirements: The main audience for this course are first year PhD students in economics (or business economics). Prerequisites are the first-year PhD core courses in micro, macro and econometrics up to this point.

1. There will about four problem sets, which together will count for 40% of the final grade. First, try to solve them alone, as much as possible alone. Then, you may collaborate on finding solutions to the problem set questions. If you do, you must indicate who your collaborators were on your solutions and hand in your own, individual write-up.

   Due dates: The tentative due dates are Wednesdays 1.15pm, every week starting on 3/27/24, but please check Canvas. You can scan or type your problem sets.

2. There will be a final exam held at the end of the semester. It will count for 60% of the course grade. The date will be on the last day of the class, 4/26/23.

The course website is at https://canvas.harvard.edu/courses/127730

There is no textbook.

We aspire to cover the following material.

Exchange rates

- Du, W, A Tepper, A Verdelhan, "Deviations from Covered Interest Rate Parity," *The Journal of Finance*, 2018.

- *Gabaix, Xavier and Matteo Maggiori. "International Liquidity and Exchange Rate Dynamics," *Quarterly Journal of Economics*, 2015.

- Itskhoki, Oleg and Dmitry Mukin. “Exchange Rate Disconnect in General Equilibrium,” *Journal of Political Economy*, 2021.

- Lucas, Robert E. “Interest Rates and Currency Prices in a Two-Country World,” *Journal of Monetary Economics*, 1982.

- Hanno Lustig, Nikolai Roussanov, and Adrien Verdelhan. “Common Risk Factors in Currency Markets,” *Review of Financial Studies*, 2011.

- Camanho, Hau, Rey “Global portfolio rebalancing and exchange rates”, *Review of Financial studies* 2022.

- Cole, Obsfeld. “Commodity Trade and International Risk Sharing: How Much Do Financial Markets Matter?”, *Journal of Monetary Economics*, 1991.

Where does inequality (in income, wealth, firm size) come from? Random growth and Power laws

- *Gabaix, Xavier. "Power Laws in Economics and Finance," *Annual Review of Economics*, 2009.

- Gabaix, Xavier. "Zipf's Law for Cities: An Explanation," *Quarterly Journal of Economics*, 1999.

- Luttmer, Erzo GJ. "Selection, Growth, and the Size Distribution of Firms," *Quarterly Journal of Economics*, 2007.

- Benhabib, Jess, Alberto Bisin, and Shenghao Zhu. "The Distribution of Wealth and Fiscal Policy in Economies with Finitely Lived Agents," *Econometrica*, 2011.

- Facundo Alvaredo, Lucas Chancel, Thomas Piketty, Emmanuel Saez and Gabriel Zucman. "Global Inequality Dynamics: New Findings from WID.World", *American Economic Review: Papers & Proceedings*, 2017.

- Gabaix, Xavier, Jean-Michel Lasry, Pierre-Louis Lions, and Ben Moll. "The Dynamics of Inequality," *Econometrica*, 2016.

- Gabaix, Xavier and Augustin Landier. “Why Has CEO Pay Increased So Much?,” *Quarterly Journal of Economics*, 2008.

Macroeconomic networks; Micro/granular origins of aggregate

There are now two surveys:

- Baqaee, David and Elisa Rubbo. “Micro propagation and macro aggregation” *Working Paper*, 2023. *Annual Review of Economics*.

- Carvalho, V.M. and Tahbaz-Salehi, A. "Production Networks: A Primer," *Annual Review of Economics*, 2018.

Main papers.

- Carvalho, Vasco and Basile Grassi. "Large Firm Dynamics and the Business Cycle," *American Economic Review*, 2019.
- Gabaix, Xavier. "The Granular Origins of Aggregate Fluctuations," *Econometrica*, 2011.
- Long Jr, John B. and Charles Plosser. "Real Business Cycles," *Journal of Political Economy*, 1983.
- Acemoglu, Daron, Vasco M. Carvalho, Asuman Ozdaglar, and Alireza Tahbaz-Salehi. "The Network Origins of Aggregate Fluctuations," *Econometrica*, 2012.
- Baqaee, David and Emmanuel Farhi. "The Macroeconomic Impact of Microeconomic Shocks: Beyond Hulten's Theorem," *Econometrica*, 2019.
- Gabaix, Xavier and Ralph Koijen. "Granular instrumental variables," *Journal of Political Economy*, 2024
- DiGiovanni, Julian, Andrei A. Levchenko and Isabelle Mejean. "Firms, Destinations, and Aggregate Fluctuations," *Econometrica*, 2014.

Financial crises

- Bernanke B. and M. Gertler. "Agency Costs, Net Worth, and Business Fluctuations," *American Economic Review*, 79(1), 14-31, March 1989.
- Kiyotaki, N. and J. Moore. "Credit Cycles," *Journal of Political Economy*, 105(2), 211-248, April 1997.
- Diamond, D.W. and P.H. Dybvig. "Bank Runs, Deposit Insurance, and Liquidity," *Journal of Political Economy*, 91(3), 401-419, June 1983.
- Simsek, Alp. "The Macroeconomics of Financial Speculation," *The Annual Review of Economics* (2021), 13, p.335-69.
- Tirole, J. "The Theory of Corporate Finance," Princeton University Press, 2006 – Ch 12.

Behavioral macroeconomics

- Angeletos, Marios and Chen Lian. "Forward Guidance without Common Knowledge," *American Economic Review*, 2018.
- Angeletos, Marios and Zhen Huo. "Myopia and Anchoring," *American Economic Review*, 2021.

- Gabaix, X. "A Sparsity-Based Model of Bounded Rationality," *Quarterly Journal of Economics,* 2014.

- Gabaix, X. "Behavioral Inattention," *Handbook of Behavioral Economics,* 2019.

- Gabaix, Xavier. "A Behavioral New Keynesian Model," *American Economic Review,* 2020.

- Farhi, Emmanuel, and Ivan Werning. "Monetary Policy, Bounded Rationality, and Incomplete Markets," *American Economic Review,* 2019.

- Woodford, Michael. "Macroeconomic Analysis Without the Rational Expectations Hypothesis," *Annual Review of Economics,* 2013.

- Bordalo, Pedro, Nicola Gennaioli, and Andrei Shleifer. "Diagnostic Expectations and Credit Cycles," *Journal of Finance,* 2018.