

## Homework 5: Essay

Choose **ONE** of the following questions:

- 1 Asset prices and real activity are disconnected. This means that consumption-based theory cannot resolve the major asset pricing puzzles. Discuss.
- 2 Booms and busts in asset prices are costly for the macroeconomy. Booms and busts in credit are not. Discuss.

# Writing essays – general

- Detailed argument to answer the question
- Around 1,000 words (2–4 pages)
- Can choose side (for/against/on the fence)
- Argue your case:
  - 1 Construct a clear logical argument
  - 2 Support your argument with evidence
- Note: in the exam, you will have less time, and your answer will be shorter

# Essay: supportive evidence

- Models and their predictions
- Data / empirical evidence: summary statistics, trends, correlations, regressions, model “moment conditions”
- Rely on citations – what others have found + what we have shown in the lectures
- In the exam: I will attach the macro-finance reading list to the exam
- Can use equations, diagrams
- Keep the argument precise and grounded in evidence
- Instead of “The US equity premium is very high”; say “The US equity premium is much higher than the C-CAPM predicts (Mehra and Prescott, 1985)” or “The US equity premium is 6%, and the model predicts 1%”

# Essay: structure

- Intro: 1-2 paras; set out the question, say briefly what / how you are going to argue
- Analysis: argument + supportive evidence
- Conclusion: re-clarify which side you are on, look forward to so what / bigger picture
- Read introductions of good papers for examples (intro is like your essay, so intro to essay is like intro to intro)

## Essay: tips

- Write down a plan first – what you are going to write, which order, which evidence / citations you will use to support your claims. Even in the exam, it saves time in the end.
- Answer the question
- Back up your claims with evidence. Do not make unfounded claims.
- Do not write for the sake of it. Think about what you write. A short essay that is well thought through is much better than a long essay that is rambling.

# Writing tips

- Short sentences
- Active voice: “The long-run US data show that consumption is volatile” instead of “It has been shown that when using historical data consumption becomes volatile”
- No bullets & lists; make the argument flow
- One point per paragraph. Ideally, 1st sentence of the paragraph should relay it
- Don't worry too much about using the same word twice (or 3, 5 times)

## Homework 5 – submission

Upload the essay onto Google Classroom by **15:00 on Thursday  
27 May**