

Incomplete syllabus for Macro 534, spring 2001

Grading

- Homeworks (50%). Some homeworks will be theoretical, and some will be computational.
- Final exam (50%). Date: to be determined (say, mid- to late April).

Schedule

We meet on

1. Wednesdays 12.30–3.15 beginning 1/24 and ending 4/11, with the following exceptions: 2/28 (out of town), 3/7 (spring break), 3/28 (out of town). This makes a total of 9 times.
2. The following additional Thursdays at 5.00–7.45: 3/29 and 4/5. In addition, the following Mondays at 5.00–7.30: 3/19, 3/26, and 4/9.

Topics

We will cover a variety of topics, including origins of wealth inequality, time-inconsistent preferences, growth, and money. Ljungqvist and Sargent (2000) is a very useful book, which covers perhaps half of the material we will talk about in class. Specific papers are listed below; stars indicate specific importance.

1. WEALTH INEQUALITY. Approximately 6 classes, covering
 - (a) Implications for inequality in a variety of complete-markets models. The aggregation theorem. Possible readings: Chatterjee (1994).
 - (b) Incomplete asset markets by assumption, without aggregate shocks: the Aiyagari and Huggett models. Possible readings: Aiyagari (1994*), Huggett (1993*), Huggett (1997), and Huggett and Ospina (1997), Díaz-Giménez, Quadrini, and Ríos-Rull (1997*), Castañeda, Díaz-Giménez, and Ríos-Rull (2000*).
 - (c) Incomplete asset markets by assumption, with aggregate shocks. Possible readings: Krusell and Smith (1998*), Storesletten, Telmer, and Yaron (2000), and Gourinchas (2000).
 - (d) Contracting with incomplete information; preliminaries, using a finite-period model: Townsend (1982*). A long list of readings is as follows. The case of simple consumption insurance: Atkeson and Lucas (1992, 1995*), Green (1987), Cole and Kocherlakota (1997*), Aiyagari and Alvarez (1995*), Fernandes and Phelan (1998), Allen (1985), Wang (1995), Thomas and Worrall (1990*), Smith and Wang (2000); Moral hazard: Spear and Srivastava (1987), Hopenhayn and Nicolini (1997*), Phelan and Townsend (1991), Phelan (1995), Atkeson (1991); Adverse selection: Hopenhayn and Nicolini (1999); Incomplete enforcement: Alvarez and Jermann (1998), Kocherlakota (1996*), Albuquerque and Hopenhayn (1998*), Kehoe and Levine (1993), Krueger (1998*); and Renegotiation proofness in dynamic contracts: Jamison (1998), Wang (1998).

2. TIME-INCONSISTENT PREFERENCES. Approximately 3 classes. Covering recent work by David Laibson & Co., Gul and Pesendorfer, Krusell, Kuruşçu, and Smith, and Barro.
3. ECONOMIC GROWTH. Approximately 3 classes. A brief survey of recent empirical and theoretical work.
4. MONEY. Approximately 2 classes. Discussions of models of money: old, new, and old ones.

Very incomplete literature list

Abreu, D., Pearce, A., and E. Stacchetti (1990), Toward a Theory of Discounted Repeated Games with Imperfect Monitoring. *Econometrica* 58:5, 1041–1064.

Aiyagari, S.R. (1994), Uninsured Idiosyncratic Risk and Aggregate Saving. *Quarterly Journal of Economics* 109, 659–684.

Aiyagari, S.R., and F. Alvarez (1995), Stationary Efficient Distributions with Private Information and Monitoring: A Tale of Kings and Slaves. *Federal Reserve Bank of Minneapolis* Manuscript.

Albuquerque, R., and H.A. Hopenhayn (1998), Optimal Dynamic Lending Contracts with Imperfect Enforceability.

Allen, F. (1985), Repeated Principal-Agent Relationships with Lending and Borrowing. *Economic Letters* 17, 27–31.

Alvarez, F., and U. Jermann, (1998), Quantitative Asset Pricing Implications of Endogenous Solvency Constraints.

Atkeson, A. (1991), International Lending with Moral Hazard and Risk of Repudiation. *Econometrica* 59, 1041–1064.

Atkeson, A., and R.E. Lucas (1995), Efficiency and Equality in a Simple Model of Efficient Unemployment Insurance. *Journal of Economic Theory* 66, 64–88.

Atkeson, A., and R.E. Lucas (1992), On Efficient Distribution with Private Information. *Review of Economic Studies* 59, 427–454.

Chatterjee, S. (1994), Transitional Dynamics and the Distribution of Wealth in a Neoclassical Growth Model. *Journal of Public Economics* 54, 97–119.

Cole, H., and N. Kocherlakota (1997), Efficient Allocations with Hidden Income and Storage. *Federal Reserve Bank of Minneapolis* Research Department Staff Report 238.

Fernandes, and C. Phelan. Title unknown.

Green, E.J. (1987), Lending and the Smoothing of Uninsurable Income. *Contractual Arrangements for Intertemporal Trade* Prescott, E., and N. Wallace, eds. Minneapolis: University of Minneapolis Press. 3–25.

- Hopenhayn, H.A., and J.P. Nicolini (1997), Optimal Unemployment Insurance. *Journal of Political Economy* 105:2, 412–438.
- Hopenhayn, H.A., and J.P. Nicolini (1999). Title unknown.
- Huggett, M. (1993), The Risk-Free Rate in Heterogeneous-Agent Incomplete-Insurance Economies. *Journal of Economic Dynamics and Control* 17, 953–969.
- Huggett, M. (1997), The One-Sector Growth Model With Idiosyncratic Shocks, *Journal of Monetary Economics* 39:3, 385–403.
- Huggett, M. and S. Ospina (1997), On Aggregate Precautionary Saving: Infinitely-Lived Agents. Unpublished.
- Jamison, J. (1998), Renegotiation Perfection in Extensive-Form Games. Unpublished.
- Kehoe, T., and D. Levine (1993), Debt-Constrained Asset Markets. *Review of Economic Studies* 60:205, 868–888.
- Kocherlakota, N.R. (1996), Implications of Efficient Risk Sharing without Commitment. *Review of Economic Studies* 63:4, 595–609.
- Ljungqvist, L., and T.J. Sargent (1998), *Recursive Macroeconomic Theory*, manuscript.
- Phelan, C. (1995), Repeated Moral Hazard and One-Sided Commitment. *Journal of Economic Theory* 66, 488–506.
- Phelan, C., and R. Townsend (1991), Computing Multi-Period, Information Constrained Optima. *Review of Economic Studies* 58, 853–881.
- Smith, B., and C. Wang (1997), Repeated Hidden Endowments with and without Costly State Verification. Unpublished.
- Spear, S., and S. Srivastava (1987), On Repeated Moral Hazard with Discounting. *Review of Economic Studies* 54:4, 599–617.
- Thomas, J., and T. Worrall (1990), Income Fluctuations and Asymmetric Information: An Example of a Repeated Principal-Agent Problem. *Journal of Economic Theory* 51:2, 367–390.
- Townsend, R. (1982), Optimal Multiperiod Contracts and the Gain from Enduring Relationships under Private Information. *Journal of Political Economy* 90, 1166–1186.
- Wang, C. (1995), Dynamic Insurance with Private Information and Balanced Budgets. *Review of Economic Studies* 62, 577–595.
- Wang, C. (1998). Title unknown.