

Syllabus

Macroeconomics II – PhD, Part A

Summer Term 2022

Instructor: Christian Bayer

Summary:

This is the third part out of four within the two-semester macroeconomics sequence for first-year doctoral students. The course focuses on models of consumption-savings decisions by households, investment decisions by firms as well as the role of financial frictions and the banking sector in macroeconomics. Methodologically, the familiarizes students with heterogeneous agent models.

Exam: Written. Exercises grant up to 20% bonus points for the exam.

Time (26 teaching hours total):

Wednesdays 14:00-16:00 (120 min, April 12: online),

Fridays 8:30-10:00 (not on April 7, 14 & 21)

Place: HS F (for the online session on April 12: [Zoom-Link](#))

Detailed structure

1. Consumption and Savings
 - a. A short history of thought
 - b. Consumption, savings and wealth in the aggregate and in the cross-section
 - c. Consumption in complete markets
 - d. Self-insurance
 - e. Models of incomplete markets with and without aggregate uncertainty

2. Investment
 - a. A short history of thought
 - b. Neoclassical investment theory
 - c. Investment in the presence of convex adjustment costs
 - d. Lumpiness in investment
 - e. Uncertainty and misallocation

Suggested Reading (Textbooks):

Consumption and Savings

- Deaton, Angus (1992): "Understanding Consumption", Oxford University Press.
- Ljungqvist, Lars and Thomas Sargent (2018): "Recursive Macroeconomic Theory", Chapters 8, 17, 18.
- David Romer (2011): "Advanced Macroeconomics", Chapter 8.

Investment

- David Romer (2011): "Advanced Macroeconomics", Chapter 9.
- Stockey, Nancy (2008): "The economics of inaction", Princeton University Press.
- Dixit, Avinash and Robert Pindyck (1994) "Investment Under Uncertainty", Princeton University Press.

Detailed Readings by topic, further follow up readings mentioned in class

1. Consumption, Income, and Wealth Facts

- Attanasio, Orazio P. "Consumption." *Handbook of macroeconomics* 1 (1999): 741-812.
- Díaz-Giménez, Javier, Quadrini, V., and José-Víctor Ríos-Rull. "Dimensions of inequality: Facts on the US distribution of earnings, income and wealth." *Federal Reserve Bank of Minneapolis Quarterly Review* 21.2 (1997): 3-21.
- Heathcote, Jonathan, Fabrizio Perri, and Giovanni L. Violante. "Unequal we stand: An empirical analysis of economic inequality in the United States, 1967–2006." *Review of Economic dynamics* 13.1 (2010): 15-51.
- Kuhn, Moritz, and José-Víctor Ríos-Rull. "2013 Update on the US earnings, income, and wealth distributional facts: A View from Macroeconomics." *Federal Reserve Bank of Minneapolis Quarterly Review* 37.1 (2016): 2-73.
- Storesletten, Kjetil, Chris I. Telmer, and Amir Yaron. "The welfare cost of business cycles revisited: Finite lives and cyclical variation in idiosyncratic risk." *European Economic Review* 45.7 (2001): 1311-1339.
- Storesletten, Kjetil, Christopher I. Telmer, and Amir Yaron. "Consumption and risk sharing over the life cycle." *Journal of monetary Economics* 51.3 (2004): 609-633.

2. Complete Markets Equilibria and Aggregation

- Ljungqvist, Lars, and Thomas J. Sargent. *Recursive macroeconomic theory*. MIT press, 2018, Chapter 8.

3. **Self insurance**

- Ljungqvist, Lars, and Thomas J. Sargent. *Recursive macroeconomic theory*. MIT press, 2018, Chapter 17.
- Bayer, Christian, and Falko Juessen. "Happiness and the persistence of income shocks." *American Economic Journal: Macroeconomics* 7.4 (2015): 160-87.
- Blundell, Richard, Luigi Pistaferri, and Ian Preston. "Consumption inequality and partial insurance." *American Economic Review* 98.5 (2008): 1887-1921.
- Campbell, John, and Angus Deaton. "Why is consumption so smooth?." *The Review of Economic Studies* 56.3 (1989): 357-373.
- Flavin, Marjorie A. "The adjustment of consumption to changing expectations about future income." *Journal of political economy* 89.5 (1981): 974-1009.
- Hall, Robert E. "Stochastic implications of the life cycle-permanent income hypothesis: theory and evidence." *Journal of political economy* 86.6 (1978): 971-987.
- Kaplan, Greg, and Giovanni L. Violante. "How much consumption insurance beyond self-insurance?." *American Economic Journal: Macroeconomics* 2.4 (2010): 53-87,

4. **Incomplete Markets: Basic Models**

- Ljungqvist, Lars, and Thomas J. Sargent. *Recursive macroeconomic theory*. MIT press, 2018, Chapter 18.
- Aiyagari, S. Rao. "Uninsured idiosyncratic risk and aggregate saving." *The Quarterly Journal of Economics* 109.3 (1994): 659-684.
- Huggett, Mark. "The risk-free rate in heterogeneous-agent incomplete-insurance economies." *Journal of economic Dynamics and Control* 17.5-6 (1993): 953-969.
- Imrohoroğlu, Ayşe. "Cost of business cycles with indivisibilities and liquidity constraints." *Journal of Political economy* 97.6 (1989): 1364-1383.

5. **Incomplete Markets and Government Policies**

- Aiyagari, S. Rao, and Ellen R. McGrattan. "The optimum quantity of debt." *Journal of Monetary Economics* 42.3 (1998): 447-469.
- Davila, J., Hong, J. H., Krusell, P., & Ríos-Rull, J. V. "Constrained efficiency in the neoclassical growth model with uninsurable idiosyncratic shocks." *Econometrica* 80.6 (2012): 2431-2467.

6. **Incomplete Markets and Aggregate Risk**

- Bayer, Christian, et al. "Precautionary savings, illiquid assets, and the aggregate consequences of shocks to household income risk." *Econometrica* 87.1 (2019): 255-290.
- Krusell, Per, and Anthony A. Smith. "Income and wealth heterogeneity, portfolio choice, and equilibrium asset returns." *Macroeconomic dynamics* 1.2 (1997): 387-422.
- Krusell, Per, and Anthony A. Smith, Jr. "Income and wealth heterogeneity in the macroeconomy." *Journal of political Economy* 106.5 (1998): 867-896.
- Reiter, Michael. "Solving heterogeneous-agent models by projection and perturbation." *Journal of Economic Dynamics and Control* 33.3 (2009): 649-665.

7. **Investment: Introduction**

- Hayashi, Fumio. "Tobin's marginal q and average q : A neoclassical interpretation." *Econometrica: Journal of the Econometric Society* (1982): 213-224.

8. **Investment: Lumpiness**

- Caballero, Ricardo J., and Eduardo MRA Engel. "Explaining investment dynamics in US manufacturing: a generalized (S, s) approach." *Econometrica* 67.4 (1999): 783-826.
- Cooper, Russell W., and John C. Haltiwanger. "On the nature of capital adjustment costs." *The Review of Economic Studies* 73.3 (2006): 611-633.
- Doms, Mark, and Timothy Dunne. "Capital adjustment patterns in manufacturing plants." *Review of economic dynamics* 1.2 (1998): 409-429.
- Khan, Aubhik, and Julia K. Thomas. "Idiosyncratic shocks and the role of nonconvexities in plant and aggregate investment dynamics." *Econometrica* 76.2 (2008): 395-436.
- Khan, Aubhik, and Julia K. Thomas. "Nonconvex factor adjustments in equilibrium business cycle models: do nonlinearities matter?." *Journal of monetary economics* 50.2 (2003): 331-360.
- Thomas, Julia K. "Is lumpy investment relevant for the business cycle?." *Journal of political Economy* 110.3 (2002): 508-534.

9. **Investment: Uncertainty**

- Bachmann, Rüdiger, and Christian Bayer. "'Wait-and-See' business cycles?." *Journal of Monetary Economics* 60.6 (2013): 704-719.

- Bloom, Nicholas. "Fluctuations in uncertainty." *Journal of Economic Perspectives* 28.2 (2014): 153-76.
- Bloom, Nicholas, et al. "Really uncertain business cycles." *Econometrica* 86.3 (2018): 1031-1065.
- Baker, Scott R., Nicholas Bloom, and Steven J. Davis. "Measuring economic policy uncertainty." *The quarterly journal of economics* 131.4 (2016): 1593-1636.
- Jurado, Kyle, Sydney C. Ludvigson, and Serena Ng. "Measuring uncertainty." *American Economic Review* 105.3 (2015): 1177-1216.

10. **Misallocation**

- Hsieh, Chang-Tai, and Peter J. Klenow. "Misallocation and manufacturing TFP in China and India." *The Quarterly journal of economics* 124.4 (2009): 1403-1448.