Aim of the course:

This course wants to introduce the students to the main mechanisms through which financial frictions affect equilibrium prices and allocations in the macroeconomy. The course first discusses the assumptions of the standard (neoclassical) model, where resources are guided to their most efficient use independent of the distribution of funds across households or firms, and independent of how firms finance investment. The course then looks at various micro-foundations for financial frictions, such as limited information, costly state verification, and moral hazard. The course then looks at how (reduced-form versions of) these frictions lead to persistence, amplification and instability / volatility in the macroeconomy. Finally, the course looks at the post-2007 financial crisis and, depending on student interest, regulatory and other policy responses, the role of housing, etc.

Course Website: www.mondo.su.se

Course Organisation and Format: The course will start with an introduction in lecture format (3 or 4 sessions). The rest of the course will be based on papers that students are expected to present and briefly present.

Office hours: upon request

Readings A ‘*’ marks compulsory readings. Two ‘*’s mark compulsory readings that will be presented in class by students.

Assessment: Students will be assessed on the basis of their presentations, a term paper and, depending on interest, a short exam.

General Reading

1. Brunnermeier et al. (2012)
2. **Quadrini (2011)**


Others’ Courses

1. Alp Simsek “Advanced Topics in Macroeconomics Spring 2012”
   http://isites.harvard.edu/icb/icb.do?keyword=k83901

Preliminary Course Outline

1. Introduction and Facts
   - Facts
   - Readings
     - Blanchard (2009)
     - Mian and Sufi (2010)
     - Mian et al. (2013)
     - Campello et al. (2010)

2. The frictionless benchmark model
   - Investment without frictions
     - q theory
     - Modigliani-Miller Theorem
   - Consumption with complete markets
     - Complete insurance markets
     - Permanent income hypothesis
   - References
     - Introductory Readings, esp. Romer Chapter 8 and Session 1 in Simsek’s course
     - Fazzari et al. (1988)
     - Kaplan and Zingales (1997)
     - Attanasio and Weber (2010)

3. The microfoundations of financial frictions
   - Limited Information
– Hidden Type: Adverse Selection and Credit rationing: Stiglitz and Weiss (1981June)
– Hidden state and costly state verification: Gale and Hellwig (1985October)
• Limited enforcement/ pledgeability, renegotiation and collateralised contracts
• Readings
  – Hart and Moore (1994November)
  – Holmstrom and Tirole (1997)
  – Stiglitz and Weiss (1981June)
  – Gale and Hellwig (1985October)

4. The net worth Channel
• Readings
  – ** Bernanke et al. (1999)

5. Fire sales and the amplifying role of asset prices
• Readings
  – Shleifer and Vishny (1992September)
  – ** Kiyotaki and Moore (1997April)

6. Precautionary savings and instability
• Readings
  – ** Sannikov and Brunnermeier (2012)

7. Financial Shocks
• Readings
  – ** Jermann and Quadrini (2012February)

8. Leverage cycles
• Readings
  – ** Geanakoplos (2009)
• Financial intermediation and banks
  – Readings
    * ** Holmstrom and Tirole (1997)
    * ** Diamond and Dybvig (1983)
• Models of market liquidity
  – Readings
* Kiyotaki and Moore (2012)
* Shi (2012)
* ** Cui and Raedde (2013)

- **Consumption**
  - Readings
    * Aiyagari (1994)
    * Krusell and Smith (1998)

- **Housing and the Macroeconomy**
  - Readings
    * Kiyotaki et al. (201103)
    * Duca et al. (2010)
    * Favilukis et al. (2010)
    * Davis and Heathcote (2005)
    * Aoki et al. (2004)
    * Iacoviello (2004December)
    * Campbell and Cocco (2007)
    * Davis and Heathcote (200508)

**References**


**Additional Ressources**

- Lee Ohanian on the post-2007 recession (and plenty of other topics) [http://files.libertyfund.org/econtalk/y2012/Ohanianrecession.mp3](http://files.libertyfund.org/econtalk/y2012/Ohanianrecession.mp3)

