Economics 741: Applied Macroeconomics
Adam Guren
Fall 2018

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270 Bay State Road, Room 400
Office Hours: M 4-5, Tu 9-10:30

Meets Monday 6-9 pm in 270 Bay State Road Room 315 (with a break from 7:20 to 7:40).

Course Description: This course is the first half of the second-year macroeconomics field sequence for the Boston University economics Ph.D. program. The course is split into two parts taught separately by Prof. Adam Guren (September 10 – October 22) and Prof. Stephen Terry (October 29 – December 10). The two halves of the course will be separate, and evaluation will be split 50-50 between the two halves.

Course Prerequisites: EC 702, EC 704, and passing grade on macroeconomics qualifying exam.

Course Requirements:

Required Readings and Course Participation (30% of Grade)

In order to produce new macroeconomic knowledge, you must first be able to consume the existing ideas of macroeconomists. For most class meetings, two journal articles will be specified on the course reading list as required reading.

- **Summary Slides**: Each student will prepare a 2-slide summary of each article assigned as required reading. The first slide should briefly summarize the conclusions of the article. The second slide should present an analysis of the paper: a critique or an idea related to the paper. To receive credit for each assigned reading, students must email their summary slides to the instructor no later than 9:00PM the Sunday night before the class meeting.

  Note: Each class will have summary slides on two papers corresponding to the two lectures in that Monday’s class session.

- **Random Presentation**: At the beginning of some classes with required reading, the instructor will randomly draw an integer with replacement for each assigned reading. Based on seating order and this random draw, one student will give a 3-minute presentation of their summary slides.

Fact Presentation (35% of Grade)

Nearly every applied macroeconomics project has at its heart a motivating fact or set of facts, and oftentimes finding a surprising or unexpected fact serves as the impetus for a paper. I want you to find a new fact of macro relevance that interests you and present it to the class. Preferably
this fact would be based on micro data keeping with the theme of this class, but it need not be. The tough part of this assignment is finding a fact. Once you have it, all you need to think about is presenting it clearly. I want to emphasize presentation skills in this class, and encourage you to devote more time than you would expect to writing and rewriting your slides to communicate your fact clearly.

5-6 p.m. on October 1: Each student gives a 5-minute presentation of their motivating empirical fact. You are allowed at most three slides to illustrate your fact, ideally visually. Think of this as the motivating introduction to a paper on this fact, and try to explain clearly what the fact is, how you found it (data, any analysis you did), and why it is surprising or puzzling.

**Problem Set (35% of Grade)**

A computational problem set will be assigned based on a model we discuss in class on October 1 and October 9. The problem set will be due October 22.

**Prof. Guren’s Half Will Cover Three Topics:**

1. Micro Variation in Macro (7 Lectures)
2. Aggregate Nominal Rigidity and Micro Price Adjustment (3.5 Lectures)
3. Labor Markets (3.5 Lectures)

(each lecture will take half of a class period)

**Course Outline:**

1. (9/10) Introduction, Micro Data in Macro
2. (9/10) Regional Shocks and Evolutions
3. (9/17) Household Balance Sheets, Deleveraging, and Monetary Policy
4. (9/17) Firm Credit, Collateral, and Monetary Policy; Credit and the Great Recession
5. (9/24) Fiscal Multipliers, Aggregation I
6. (9/24) Aggregation II
7. (10/1) Aggregation III
8. (10/1) State-Dependent Pricing and (S,s) Models
9. (10/8) Evidence On Price Adjustment and Refined (S,s) Models
10. (10/8) Persistence and Real Rigidity
11. (10/15) Time Variation in Monetary Policy Effectiveness, Intro to Macro-Labor
12. (10/15) Flavors of Search Models
13. (10/22) The Unemployment Volatility Puzzle and Sticky Wages
14. (10/22) The Scarring Effects of Job Loss

**My Approach:**

- I want to give you a bird’s eye view of the “lay of the land” of the literature.
  - Very useful for data source, identification strategies, etc.
- And then focus in on a few papers (2-3 per class) in detail.
You will be asked to read these carefully before class.
One paper will be used for the summary slides assignment – see web site. Often these will be more recent papers meant to get you thinking at the frontier rather than the most seminal papers.

My View on the “Big Questions in Macro”:

- What are the drivers of fluctuations (shocks)?
- Why are responses so big to seemingly small shocks?
- Why are responses so persistent?
- What is the role of policy, particularly monetary and fiscal?
- What are the roles of non-linearities and how do they change the above questions?

What I ask of you:

- Read double-starred readings very carefully. Read the starred readings as best you can (and given your interests).
  - I will announce what to read before class (also see last two pages).
- Ask questions, participate, challenge me, etc.
- Read critically and come to class with an eye towards new research questions.

Topic 1: Micro Variation in Macro

- Introduction
  - ** Nakamura and Steinsson (2017) “Identification in Macroeconomics.” WP.
  - ** Huber (2017) “Disentangling the Effects of a Banking Crisis: Evidence From German Firms and Counties.” AER.
- Regional Dynamics and Variation
  - Palmer, Christopher (2015) “Why did So Many Subprime Borrowers Default During the Crisis: Loose Credit or Plummeting Prices?” WP.
- Households, Debt Overhang, and the Debt-Deleveraging Channel (Mian and Sufi)


Guerrieri and Lorenzoni (2017) “Credit Crises, Precautionary Savings, and the Liquidity Trap.” *QJE.*


** Households and Monetary Policy


* Beraja, Fuster, Hurst, and Vavra (2017). “Regional Heterogeneity and Monetary Policy.” WP.


** Firms and Monetary Policy

Richardson and Troost (2009) “Monetary Policy Intervention Mitigated Banking Panics During the Great Depression: Quasi-Experimental Evidence from a Federal Reserve District Border, 1929-1933.” *JPE.*

* Kashyap and Stein (2000) “What Do a Million Observations on Banks Say About the Transmission of Monetary Policy?” *AER.*


** Firms and Bank Shocks (regional and firm-level)


Ashcraft (2005) “Are Banks Really Special? New Evidence from the FDIC-Induced Failure of Healthy Banks.” *AER.*


• Firms and Collateral
  

• Households and Bank Shocks
  
  • * Mondragon (2017) “Household Credit and Employment in the Great Recession.” WP.

• Fiscal Policy and the Multiplier
  

  • ** Chodorow-Reich (2017) “Geographic Cross-Sectional Fiscal Multipliers: What Have We Learned?” WP.


• Aggregation
  

  • ** Beraja (2017) “Counterfactual Equivalence in Macroeconomics.” WP.


  • * Carvalho, Nirei, Saito, and Tahbaz-Salehi (2016) “Supply Chain Disruptions: Evidence from the Great East Japan Earthquake.” WP.


• Information, Expectations, and Aggregation
  


Angeletos and La’O (2013) “Sentiments.” *EMCA*.

**Topic 2: Aggregate Nominal Rigidity and Micro Price Adjustment**

- **Overviews**

- **Evidence For Monetary Non-Neutrality**

- **Evidence on Price Adjustment**

- **Theory of Price Adjustment: (S,s) Models**
- Midrigan (2011) “Menu Costs, Multi-Product Firms, and Aggregate Fluctuations.” *Emca*.

### Persistence and Strategic Complementarity
- Ball and Romer (1990) “Real Rigidities and the Non-Neutrality of Money.” *RESTUD*.

### International Evidence

**Time Variation**
- Gilchrist, Schoenle, Sim, and Zakrajsek (2017) “Inflation Dynamics During the Financial Crisis.” *AER*.

**Topic 3: Macro Labor**

- **Overviews**

- **Facts**

- **Partial Equilibrium Search**

- **Random Search: The DMP Model**
  - Pissarides (1985) “Short-Run Equilibrium Dynamics of Unemployment Vacancies and Real Wages.” *AER*.

- **Directed Search**
• Wage Dispersion
• Unemployment Volatility and the “Shimer Puzzle”
  o Gertler and Trigari (2009) “Unemployment Fluctuations With Staggered Nash Wage Bargaining.” *JPE.*
  o Hall (2017) “High Discount Rates and High Unemployment.” *AER.*
  o ** Ljungqvist and Sargent (2017) “The Fundamental Surplus.” WP.
• Wages
  o Barsky Solon, and Parker (1994) “Measuring the Cyclicity of Real Wages: How Important is Composition Bias?” *QJE.*
• Scarring and Long-Run Effects
  o * Davis and Von Wachter (2011) “Recessions and the Cost of Job Loss.” *BPEA.*
  o Hall (1995) “Lost Jobs.” *BPEA.*
Starred Readings By Lecture

1. Introduction (September 10)
   a. Class Discussion: Nakamura-Steinsson, Huber
   b. ** Nakamura-Steinsson
   c. ** Huber
2. Regional Shocks and Evolutions (September 10)
   a. **: Blanchard-Katz, Yagan
   b. *: Autor-Dorn-Hanson
3. Household Balance Sheets, Deleveraging, and Monetary Policy (September 17)
   a. Summary Slides: Mian-Sufi-Rao and Mian-Sufi (2014 EMCA), together
4. Credit, Collateral, and Monetary Policy; Credit and the Great Recession (September 17)
   a. Summary Slides: Khwaja-Mian or Chodorow-Reich (choice)
   b. ** Khwaja-Mian, Chodorow-Reich
   c. *: Peek-Rosengren, Chaney-Sraer-Thesmar, Mas-Greenstone-Nguyen
5. Fiscal Multipliers, Aggregation I (September 24)
   a. Summary Slides: Nakamura-Steinsson
   b. **: Nakamura-Steinsson, Chodorow-Reich
   c. *: Shoa, Suarez Serrato-Wingender
6. Aggregation II (September 24)
   a. Summary Slides: Beraja-Hurst-Ospina
   b. **: Beraja-Hurst-Ospina
   c. *: Mian-Sufi (2014), Acemoglu-Autor-Dorn-Hanson-Price, Carvalho-Nirei-Saito-Tahbaz-Salehi
7. Aggregation III (October 1)
   a. Summary Slides: Angeletos-La’O
   c. *: Angeletos-Lian (Handbook)
8. State-Dependent Pricing and (S,s) Models (October 1)
   a. Summary Slides: Golosov-Lucas
   b. **: Golosov-Lucas
   c. *: Caplin-Spulber, Bils-Klenow, Caplin-Leahy
9. Evidence On Price Adjustment and Refined State-Dependent (October 8)
   a. Summary Slides: Midrigan
   b. **: Nakamura-Steinsson, Klenow-Kryvstov, Midrigan
   c. *: Caballero and Engel, Alvarez-Le Bihan-Lippi
10. Persistence and Real Rigidity (October 8)
    a. Summary Slides: None
    b. **: Mongey, Ball-Romer
11. Real Rigidity (Continued), Time Variation in Monetary Policy Effectiveness, Intro to Macro-Labor (October 15)
    a. Summary Slides: Vavra
b. ** Vavra

12. Flavors of Search Models (October 15)
   a. No Summary Slides, read Rogerson-Shimer-Wright carefully.
   b. **: Rogerson-Shimer-Wright, Mortensen-Pissarides
   c. *: Menzio-Shi

13. The Unemployment Volatility Puzzle and Sticky Wages (October 22)
   b. **: Shimer, Pissarides, Ljungqvist-Sargent
   c. *: Hagadorn-Manovskii, Hall, Schoeffler, Elsby-Shin-Solon

14. The Scarring Effects of Job Loss (October 22)
   a. Summary Slides: Jarosch
   b. **: Jarosch
   c. *: Jacobson-LaLonde-Sullivan, Davis-Von Wachter, Pries