EC 741 Topics in Macroeconomics and Monetary Theory

Jianjun Miao

Fall 2010

Schedule  Wednesday 5:30-8:30pm at CAS 220 (later SSW315)

Office Hours  Tuesday 11:00-12:30 and Wednesday 2:00-3:30pm or by appointment

Contact

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Course Overview  I teach the first half of the course. I focus on topics on the interaction between the real economy and financial markets. In the standard frictionless and complete markets models, financial markets are independent of real economy. In particular, the equilibrium allocations are Pareto optimal and can be solved by the social planner problem. Asset prices are then determined by the risk-adjusted discounted present values using the unique pricing kernel. A number of empirical studies have documented that these standard models fail to explain many phenomena observed in the data. Recent frontier research emphasizes a modeling approach that goes beyond the framework with a representative agent or with frictionless and complete markets. The objective of this course is to study the implications of financial
market imperfections for macroeconomics and finance. These imperfections include uninsurable idiosyncratic risks, asymmetric information, moral hazard, agency costs, adjustment costs, and taxation. In this course, I will focus on the following topics: firm investment and financial policies, firm dynamics, asset pricing, business cycles, and fiscal and monetary policies. The course will emphasize theory and models, but I also include related empirical references for students interested in empirical work. Computational methods are necessary for solving and estimating the models presented in class. The best way to learn computational and empirical methods is learning-by-doing. Thus, students are expected to complete a computation/estimation project.

Course Requirements and Grading  Class attendance is required. Students are also expected to present recent research papers and replicate some published papers. The final course performance is based on the following weights:

- Class participation and presentation: 50%.
- Computation project: 50%.

IMPORTANT  It is your responsibility to plan your travel around exams dates. In particular, the date of the final exam is determined by the Registrar and cannot be changed for any reason. All exams are required. If you miss an exam without an acceptable excuse, you will receive a grade of zero. The only exceptions will be for a verified family emergency or for an illness or injury that is confirmed by the University Medical Clinic or other doctor. If you miss an exam for a legitimate reason, you will take a makeup exam.

Academic Conduct  It is your responsibility to know and understand the provisions of the CAS Academic Conduct Code (http://www.bu.edu/cas/academics/programs/conductcode.html). Cases of suspected academic misconduct will be referred to the Dean’s Office. Any student found guilty of cheating on an exam in this course will receive a minimum penalty of a zero grade for that exam.
Course Outline

1 Introduction to Corporate Finance

Survey


Theory

- Myers, S. and N. Majluf, 1984, Corporate financing and investment decisions when firms have information that investors do not have, *Journal of Financial Economics* 13, 187-221
2 Firm Investment and Financial Policies

Survey


- Auerbach, A. 1983, Taxation, corporate financial policy and the cost of capital, *Journal of Economic Literature* 3, 905-940


Theoretical and Empirical Studies


3 Industry Dynamics

Survey


Theory


4 Asset Pricing and Real Economy

Survey


Theory


• Caldara, Dario, Jesus Fernandez-Villarerde, Juan F. Rubio-Ramirez, and Yao Wen, 2009, Computing DSGE Models with Recursive Preferences, working paper, U. Penn.


5 Financial Intermediaries and Business Cycles

Survey


*Gertler, Mark and Nobuhiro Kiyotaki, 2010, Financial Intermediation and Credit Policy in Business Cycle Analysis, working paper, NYU.

Geanakoplos, John, The Leverage Cycle, Cowles Foundation Paper # 1304.


Theory


Fostel, Ana and John Geanakopulos, 2008, Leverage Cycles and the Anxious Economy, American Economic Review 98, 1211-1244


### 6 Monetary Policy

**Survey**


**Theory**


• *Curdia, Vasco, and Michael Woodford, 2009, Credit Frictions and Optimal Monetary Policy, working paper.*

• Curdia, Vasco, and Michael Woodford, 2009, Credit Spreads and Monetary Policy, JMCB, forthcoming.


\begin{itemize}
\item *Gertler, Mark and Peter Karadi, 2010, A Model of Unconventional Monetary Policy, working paper, NYU.
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\section{Fiscal Policy}

\textbf{Survey}

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\textbf{Theory}

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8 Financial Crisis, Bubbles and Crashes

Survey


Theory


## Schedule

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