

EC 741 Topics in Macroeconomics and Monetary Theory

Jianjun Miao

Fall 2012

Schedule Thursday 5:30-8:30pm at CAS 223 (09/07-10/26)

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. We will study topics of bubbles and crashes. The goal is to understand the origin and consequences of bubbles and policy implications.

Course Requirements and Grading The course performance is based on the following weights:

- Class participation 10%
- Presentation: 40%.

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 Surveys

- Brunnermeier, Markus, 2009, Bubbles, entry in *The New Palgrave Dictionary of Economics*, edited by Steven Durlauf and Lawrence Blume, 2nd edition.
- Brunnermeier, Markus, 2001, *Asset Pricing under Asymmetric Information - Bubbles, Crashes, Technical Analysis and Herding*, Oxford University Press.
- Allen, F. and Gale, D., 2007, *Understanding Financial Crises*, Oxford University Press.
- Allen, F. and Gale, D., 2008, *Financial Crisis*, Edward Elgar Publishing Ltd.

2 Rational Bubbles: Infinite Horizon Models

- Alvarez, Fernando and Urban J. Jermann, 2000, Efficiency, Equilibrium, and Asset Pricing with Risk of Default, *Econometrica* 68, 775-798.
- Bejan, Camelia and Florin Bidian, 2012, Limited Enforcement, Bubbles and Trading in Incomplete Markets, working paper, Georgia State University.
- Blanchard, Olivier, and Mark Watson, 1982, Bubbles, Rational Expectations and Financial Markets, Harvard Institute of Economic Research Working Paper No. 945.
- Hellwig, Christian, and Guido Lorenzoni, 2009, Bubbles and Self-Enforcing Debt, *Econometrica* 77, 1137-1164.
- Huang, Kevin X.D., 2002, On Infinite-Horizon Minimum-Cost Hedging under Cone Constraints, *Journal of Economic Dynamics and Control* 27, 283-301.
- Huang, Kevin X.D. and Jan Werner, 2000, "Asset Price Bubbles in Arrow-Debreu and Sequential Equilibrium" (with J. Werner). *Economic Theory* (lead article), Vol. 15, No. 2, 253-278.

- Kehoe, Timothy J. and David K. Levine, 1993, Debt-Constrained Asset Markets, *Review of Economic Studies* 60, 865-888.
- Kiyotaki, Nobuhiro, and John Moore, 2008, Liquidity, Business Cycles and Monetary Policy, working paper, Princeton University.
- Kocherlakota, Narayana, 1992, Bubbles and Constraints on Debt Accumulation, *Journal of Economic Theory* 57, 245-256.
- Kocherlakota, Narayana, 2008, Injecting Rational Bubbles, *Journal of Economic Theory* 142, 218-232.
- Kocherlakota, Narayana, 2009, Bursting Bubbles: Consequences and Cures, mimeo, University of Minnesota.
- Miao, Jianjun, Pengfei Wang, and Zhiwei Xu, A Bayesian DSGE Model of Stock Market Bubbles and Business Cycles
- Miao, Jianjun, Pengfei Wang, and Lifang Xu, Stock Market Bubbles and Unemployment, working paper, Boston University.
- Miao Jianjun and Pengfei Wang, Banking Bubbles and Financial Crisis
- Miao, Jianjun and Pengfei Wang, Sectoral Bubbles and Endogenous Growth
- Miao, Jianjun and Pengfei Wang, Bubbles and Credit Constraints
- Miao, Jianjun and Pengfei Wang, Bubbles and Total Factor Productivity, *American Economic Review* 102, 82-87.
- Santos, Manuel and Michael Woodford, 1997, Rational Asset Pricing Bubbles, *Econometrica* 65, 19-57.
- Tirole, Jean, 1982, On the Possibility of Speculation under Rational Expectations, *Econometrica* 50, 1163-1182.
- Wang, Pengfei and Yi Wen, 2011, Speculative Bubbles and Financial Crisis, forthcoming in *American Economic Journal: Macroeconomics*.

- Werner, Jan, 2012, Rational Asset Pricing Bubbles and Debt Constraints, working paper.

3 Rational Bubbles: OLG Models

- Caballero, Ricardo, Emmanuel Farhi and Mohamad Hammour, 2006, Speculative Growth: Hints from the US Economy, *American Economic Review* 96, 1159-1192
- Caballero, Ricardo J. and Arvind Krishnamurthy, 2006, Bubbles and Capital Flow Volatility: Causes and Risk Management, *Journal of Monetary Economics* 53, 35-53.
- Farhi, Emmanuel and Jean Tirole, 2010, Bubbly Liquidity, forthcoming in *Review of Economic Studies*.
- Grossman, Gene and Noriyuki Yanagawa, 1993, Asset Bubbles and Endogenous Growth, *Journal of Monetary Economics* 31, 3-19.
- Martin, Alberto and Jaume Ventura, 2010a, Economic Growth with Bubbles, forthcoming in *American Economic Review*.
- Martin, Alberto and Jaume Ventura, 2010b, Theoretical Notes on Bubbles and the Current Crisis, working paper, Universitat Pompeu Fabra.
- Olivier, Jacques, 2000, Growth-Enhancing Bubbles, *International Economic Review* 41, 133-151.
- Tirole, Jean, 1985, Asset Bubbles and Overlapping Generations, *Econometrica* 6, 1499-1528.
- Weil, Philippe, 1987, Confidence and the Real Value of Money in an Overlapping Generations Economy, *Quarterly Journal of Economics* 102, 1-22.

4 Speculative Bubbles and Irrational Bubbles

- Abreu, Dilip, and Markus K. Brunnermeier, 2003, Bubbles and Crashes, *Econometrica* 71, 173–204.
- Allen, F. and Gale, D, 2000, Bubbles and Crises, *Economic Journal*, vol. 110, pp. 236-255.
- Allen, Franklin, and Gary Gorton, 1993, Churning Bubbles, *Review of Economic Studies* 60, 813–836.
- Allen, Franklin, Stephen Morris, and Andrew Postlewaite, 1993, Finite Bubbles with Short Sale Constraints and Asymmetric Information, *Journal of Economic Theory* 61, 206-229.
- Allen, Franklin, Stephen Morris, and Shin, 2006, Beauty Contests and Iterated Expectations in Asset Markets, *Review of Financial Studies* 19, 719-752.
- Harrison, J. M. and D. M. Kreps, 1978, Speculative Investor Behavior in a Stock Market with Heterogeneous Expectations, *Quarterly Journal of Economics* 92, 323-336.
- Scheinkman Jose and Wei Xiong, 2003, Overconfidence and Speculative Bubbles, *Journal of Political Economy* 111, 1183-1219.

Schedule

Thursday		
Week 1	Sept 6	Introduction
Week 2	Sept 13	Infinite horizon
Week 3	Sept 20	Infinite Horizon
Week 4	Sept 27	OLG
Week 5	Oct 4	OLG
Week 6	Oct 11	Presentation
Week 7	Oct 18	Presentation
