

## **Syllabus: Financial Imperfections and Macroeconomic Implications (Winter 2015)**

Anton Korinek

Johns Hopkins and NBER

Email contact: [anton@korinek.com](mailto:anton@korinek.com)

Webpage: <http://gradmacro.korinek.com/>

### **Schedule:**

Mo 14.12.: 16 - 18h

Di 15.12.: [recommended: RS 9 - 10h], 10:30 - 12:30h und 14 - 16h

Mi 16.12.: 10:30 - 12:30h

Do 17.12.: 10:30 - 12:30h und 14 - 16h

Fr 18.12.: 10:30 - 12:30h

Mo 21.12.: 10:30 - 12:30h und 15 - 17h

Di 22.12.: 10:30 - 12:30h und 14 - 16h

Mi 23.12.: 10:30 - 12:30h

### **Course Description:**

The goal of this course is to get you started on cutting-edge research in macroeconomics and/or international finance, with special emphasis on financial imperfections.

In our lectures, we will cover models of financial market imperfections and their implications for the macroeconomy. We will develop rigorous microeconomic foundations of different financial imperfections, including theories of financial constraints and credit rationing, incomplete risk markets, liquidity, moral hazard and externalities. Then the course discusses the implications of these imperfections for the macroeconomy, such as fire sales and the financial accelerator, aggregate demand effects, liquidity crises, bubbles etc. We will pay special attention to recent macroeconomic events and analyze optimal policy responses.

The lectures will be accompanied by practical assignments that aim to make you more fluent in the topic and prepare you to do research in the area of the course. These include two problem sets, a referee report and a research proposal.

### **Requirements:**

**Participation:** You are expected to prepare for each lecture by studying the required readings as indicated on the reading list by (\*) and as announced over time. This will enable you to actively and effectively participate in classroom discussions.

### **Problem Sets:**

There will be two mandatory problem sets. To ensure that we make adequate progress, the first problem set will be due on the first day of classes.

## **Referee Reports:**

The course will also require you to summarize, evaluate and critique a recent research paper and to write a referee report (2 pages). [Papers that qualify are marked with \(R\) on our reading list](#); you may also propose a closely related recent top research paper (e.g. NBER working paper) subject to my approval. You will be asked to submit a paper version of your referee report and you may be asked to give a brief presentation of the main points in the paper and of your critique in class.

Please pick three papers from the reading list that you find interesting; we will assign who referees what in our first lecture on Monday 12/14. Your written report is due at the beginning of class on Friday, 12/18.

The referee report should (i) summarize the main substantive insights of the paper [without getting lost in technicalities], (ii) evaluate what the marginal contribution is and whether you buy the results, and (iii) provide a constructive critique of what could be improved, e.g. whether the paper identifies the key considerations relevant for the question it asks, what assumptions are questionable, what methodologies should be reassessed etc. Detailed instructions on how to write good referee reports in our field are given for example [here](#).

## **Research Proposal:**

The most important objective of a topics course is to help you make the transition from coursework to individual research. This is a bit challenging in a course that lasts only two weeks, but I expect you to submit a research proposal (3 pages) on a topic related to the course on Mon 12/21 and give a 12min presentation on it in one of our lectures that week.

Please discuss your thoughts on potential topics with me in the first week of our course - the earlier, the better.

Your proposal should include (i) an abstract that does not exceed 100 words and that captures the central idea, (ii) an introduction that explains why your research question is important and relevant for the profession and that clarifies your marginal contribution to the existing literature.

Furthermore, the proposal should cover the following: If it is for an empirical paper, include what data you will need, where you will get it from, and what regressions you will run (with a few sample equations). If it is for a theoretical paper, include a detailed model setup, describe what solution methods you will use and what results you expect.

Note: You are welcome to submit a research proposal on a topic that you are already working on, as long as (i) you obtain prior approval from me and (ii) we both determine that it fits under the topics of our course. You will still have to write up a proposal in the format described above and within the given page limit. (Our course is not meant to be a general macro brownbag seminar.)

**Course Topics:**

**Part I: Financial Imperfections**

- perfect capital markets
- balance sheets and financial intermediaries
- financial constraints
- incomplete risk markets
- incomplete risk markets & default
- incomplete risk markets & liquidity
- government guarantees and moral hazard
- market imperfections/externalities
- irrationality

**Part II: Macroeconomic Implications**

- financial amplification
- amplification & externalities
- financial markets and aggregate demand
- bubbles and crashes
- safe assets
- financial innovation
- sovereign debt crises
- ...

See website <http://gradmacro.korinek.com> for detailed readings on these topics.