Description: The primary goal of this course is to present the main approaches used in the literature to study the role of the financial sector for macroeconomic dynamics. We will have five meetings.

Course schedule

- **Monday, May 12**
  
  - **15:00-17:00.** In the first class I will go through a recent review article I wrote for the *Quarterly Review* of the Federal Reserve Bank of Richmond (see Quadrini (2011)). In this lecture I will cover the first part of the article where I develop the basic framework that can be used to illustrate the key mechanisms of several contributions proposed in the literature including the seminal papers of Bernanke and Gertler (1989) and Kiyotaki and Moore (1997).

- **Tuesday, May 13**
  
  - **15:00-17:00.** In the second class I will finish the review article in the *Quarterly Review* of the Federal Reserve Bank of Richmond (see Quadrini (2011)). In this lecture I will cover the second part of the article where I illustrate the most recent contributions to the literature. I will do that by using the same framework we developed the previous day. This is because most of the recent contributions to the literature can be seen as extensions of earlier papers. During the review I will reference several papers that have recently attracted special attention in the literature.

- **Wednesday, May 14**
Typically, models that formalize financial frictions are highly non-linear. This feature makes these models very attractive because they can generate significant asymmetries, for example, between crises and expansions. Also, precautionary behavior and volatility play important roles in these models, with significant effects on macroeconomic dynamics. To properly account for the non-linearities, we need to solve these models using computational techniques that are quite involved. The goal of this lecture is to present some of the computational methods that can be easily used to solve these models.

Thursday, May 15

- **15:00-17:00.** The fourth class will cover macro-finance issues in open economies, both for business cycles and long-term dynamics. The business cycle analysis emphasizes the importance of the financial sector for international co-movement, especially during crises. The long-term analysis emphasizes the causes of global imbalances. The presentation will be based on two papers: Perri and Quadrini (2011) and Mendoza, Quadrini, and Ríos-Rull (2009). In the presentation, however, I will describe how these two papers relate to the literature and, therefore, I will also discuss important papers like Caballero, Farhi, and Gourinchas (2008) and Mendoza (2010). In the presentation, however, I will describe how these two papers relate to the literature and, therefore, I will also discuss important papers like Caballero et al. (2008) and Mendoza (2010). Since some of these models do not allow for perfect aggregation, we have to deal with heterogeneity. I will then discuss some computational approaches we can use to deal with endogenous heterogeneity.

Friday, May 16

- **15:00-17:00.** The fifth and last class will cover the linkage between financial markets and the labor market. This allows us to explore additional channels through which financial markets can affect both employment and labor compensation that are different
from the typical ‘credit channel’. We will also explore the centrality of the intermediation or banking sector in affecting some of these channels.

References


