

May 2012

Professor: Manuel Santos

## **Special Topics & Macroeconomics: Frictions in Monetary and Financial Markets**

**Objectives:** In this course we will review macroeconomic models with market frictions. Special attention will be devoted to monetary and financial frictions, and to the computation of macroeconomic models embedding such frictions.

Exams Dates: To be determined.

Office hours: After class, and by appointment.

### **OUTLINE**

- 1) Asset Pricing
  - a) Pricing by arbitrage
  - b) Borrowing limits and financial constraints
  - c) Rational asset pricing bubbles
  - d) Asymmetric information and speculative behavior
  
- 2) Macroeconomics and Finance
  - a) The consumption asset pricing model
  - b) Financial volatility and equity premia
  - c) Empirical facts on the volatility of asset prices
  - d) Long-term asset pricing volatility
  - e) Asset pricing and monetary frictions
  
- 3) Computation of Economies with Frictions
  - a) A reliable algorithm
  - b) A growth model with taxes
  - c) An overlapping generations model

- d) A model of international trade
- e) An asset pricing model

### *Readings*

- Abreu, and Brunnermeier (2003). “Bubbles and Crashes,” *Econometrica*, 71, 173–204.
- Auroba, Fernandez Villaverde and Rubio (2006). “Comparing Solution Methods for Dynamic Equilibrium Economies,” *Journal of Economic Dynamics and Control*, 30, 2447–2508.
- Campbell (1999). “Asset Prices, Consumption, and the Business Cycle,” *Handbook of Macroeconomics*.
- Feng, Miao, Peralta-Alva and Santos (2009). “Numerical Simulation of Nonoptimal Dynamic Equilibrium Models,” Working Paper, University of Miami.
- Iraola and Santos (2009). “Long-Term Asset Price Volatility and Economic Fluctuations,” working paper, ITAM.
- Ljungqvist and Sargent, Recursive Macroeconomic Theory. MIT press, 2000.
- Perez and Santos (2011). “Currency Speculation in a Game-Theoretic Model of International Reserves,” manuscript.
- Santos and Woodford (1997). “Rational Asset Pricing Bubbles,” *Econometrica*, 65(1), pp. 19-58,