

416-1 Advanced Macroeconomics

Guido Lorenzoni

Syllabus

This part of the course covers topics related to modeling financial crises, the sources of fragility that make an economy susceptible to crises, and the optimal policy responses. Emphasis will be given to various forms of non-linear dynamics.

1 The policy debate: panic or deleveraging?

- Ben Bernanke. The real effects of the financial crisis. *Brookings Papers on Economic Activity*, 2018
- Silvia Merler. [“Financial panic and the Great Recession”](#), Bruegel blog.
- Paul Krugman. [“Botching the Great Recession”](#), NYT 09/12/2018.

2 Deleveraging

- Veronica Guerrieri and Guido Lorenzoni. Credit crises, precautionary savings, and the liquidity trap. *The Quarterly Journal of Economics*, 132(3):1427–1467, 2017
- Gauti B Eggertsson and Paul Krugman. Debt, deleveraging, and the liquidity trap: A fisher-minsky-koo approach. *The Quarterly Journal of Economics*, 127(3):1469–1513, 2012
- Pierpaolo Benigno, Gauti B Eggertsson, and Federica Romei. Dynamic debt deleveraging and optimal monetary policy. *American Economic Journal: Macroeconomics*, 2019

3 Housing, house wealth effects, origins of the boom

- Daniel Greenwald. The mortgage credit channel of macroeconomic transmission. Working paper, MIT, 2018
- Jack Favilukis, Sydney C Ludvigson, and Stijn Van Nieuwerburgh. The macroeconomic effects of housing wealth, housing finance, and limited risk sharing in general equilibrium. *Journal of Political Economy*, 125(1):140–223, 2017

- Greg Kaplan, Kurt Mitman, and Giovanni L Violante. The housing boom and bust: Model meets evidence. Technical report, National Bureau of Economic Research, 2017
- David Berger, Veronica Guerrieri, Guido Lorenzoni, and Joseph Vavra. House prices and consumer spending. *The Review of Economic Studies*, 85(3):1502–1542, 2017
- Alejandro Justiniano, Giorgio E Primiceri, and Andrea Tambalotti. Household leveraging and deleveraging. *Review of Economic Dynamics*, 18(1):3–20, 2015
- William Diamond, Tim Landvoigt, et al. Credit cycles with market based household leverage. Technical report, University of Pennsylvania, 2019

4 Tools: continuous time and adjustment costs

- Yves Achdou, Jiequn Han, Jean-Michel Lasry, Ben Moll, and Pierre-Louis Lions. Income and wealth distribution in macroeconomics: A continuous-time approach. Working paper, Princeton, 2018

5 Inefficiencies and macroprudential policy

- Guido Lorenzoni. Inefficient credit booms. *The Review of Economic Studies*, 75(3):809–833, 2008
- Anton Korinek and Alp Simsek. Liquidity trap and excessive leverage. *American Economic Review*, 106(3):699–738, 2016
- Emmanuel Farhi and Iván Werning. A theory of macroprudential policies in the presence of nominal rigidities. *Econometrica*, 84(5):1645–1704, 2016
- Gideon Bornstein and Guido Lorenzoni. Moral hazard misconceptions: The case of the greenspan put. *IMF Economic Review*, 66(2):251–286, 2018
- Anil K Kashyap and Guido Lorenzoni. Borrower and lender resilience. Working paper, Northwestern University, 2019

6 Models of panics

- Mark Gertler and Nobuhiro Kiyotaki. Banking, liquidity, and bank runs in an infinite horizon economy. *American Economic Review*, 105(7):2011–43, 2015
- Mark Gertler, Nobuhiro Kiyotaki, and Andrea Prestipino. A macroeconomic model with financial panics. Technical report, National Bureau of Economic Research, 2017

7 Amplification and propagation in financial accelerator models

- Markus K Brunnermeier and Yuliy Sannikov. A macroeconomic model with a financial sector. *American Economic Review*, 104(2):379–421, 2014
- Arvind Krishnamurthy. Collateral constraints and the amplification mechanism. *Journal of Economic Theory*, 111(2):277–292, 2003
- Sebastian Di Tella. Uncertainty shocks and balance sheet recessions. *Journal of Political Economy*, 125(6):2038–2081, 2017
- Luigi Bocola and Guido Lorenzoni. Risk sharing externalities. Working paper, Northwestern University, 2019

8 Nonlinear dynamics

- Paul Beaudry, Dana Galizia, and Franck Portier. Putting the cycle back into business cycle analysis. Working Paper 22825, National Bureau of Economic Research, November 2016
- Edouard Schaal and Mathieu Taschereau-Dumouchel. Aggregate demand and the dynamics of unemployment. 2016

9 Dynamics of expectations

- Pedro Bordalo, Nicola Gennaioli, and Andrei Shleifer. Diagnostic expectations and credit cycles. *The Journal of Finance*, 73(1):199–227, 2018
- Pedro Bordalo, Nicola Gennaioli, Spencer Yongwook Kwon, and Andrei Shleifer. Diagnostic bubbles, Working Paper

10 The policy debate: what are the risks of high public debt?

- Olivier Blanchard. Public debt and low interest rates. Working paper, PIIIE, 2019
- Christina D Romer and David H Romer. Why some times are different: Macroeconomic policy and the aftermath of financial crises. Working Paper 23931, National Bureau of Economic Research, October 2017

11 Dynamics and crises in public debt markets

- Giancarlo Corsetti and Luca Dedola. The mystery of the printing press: Monetary policy and self-fulfilling debt crises. *Journal of the European Economic Association*, 14(6):1329–1371, 2016
- Guido Lorenzoni and Ivan Werning. Slow moving debt crises. Working Paper 19228, National Bureau of Economic Research, July 2013

References

- [1] Yves Achdou, Jiequn Han, Jean-Michel Lasry, Ben Moll, and Pierre-Louis Lions. Income and wealth distribution in macroeconomics: A continuous-time approach. Working paper, Princeton, 2018.
- [2] Paul Beaudry, Dana Galizia, and Franck Portier. Putting the cycle back into business cycle analysis. Working Paper 22825, National Bureau of Economic Research, November 2016.
- [3] Pierpaolo Benigno, Gauti B Eggertsson, and Federica Romei. Dynamic debt deleveraging and optimal monetary policy. *American Economic Journal: Macroeconomics*, 2019.
- [4] David Berger, Veronica Guerrieri, Guido Lorenzoni, and Joseph Vavra. House prices and consumer spending. *The Review of Economic Studies*, 85(3):1502–1542, 2017.
- [5] Ben Bernanke. The real effects of the financial crisis. *Brookings Papers on Economic Activity*, 2018.
- [6] Olivier Blanchard. Public debt and low interest rates. Working paper, PIIE, 2019.
- [7] Luigi Bocola and Guido Lorenzoni. Risk sharing externalities. Working paper, Northwestern University, 2019.
- [8] Pedro Bordalo, Nicola Gennaioli, Spencer Yongwook Kwon, and Andrei Shleifer. Diagnostic bubbles, Working Paper.
- [9] Pedro Bordalo, Nicola Gennaioli, and Andrei Shleifer. Diagnostic expectations and credit cycles. *The Journal of Finance*, 73(1):199–227, 2018.
- [10] Gideon Bornstein and Guido Lorenzoni. Moral hazard misconceptions: The case of the greenspan put. *IMF Economic Review*, 66(2):251–286, 2018.
- [11] Markus K Brunnermeier and Yuliy Sannikov. A macroeconomic model with a financial sector. *American Economic Review*, 104(2):379–421, 2014.
- [12] Giancarlo Corsetti and Luca Dedola. The mystery of the printing press: Monetary policy and self-fulfilling debt crises. *Journal of the European Economic Association*, 14(6):1329–1371, 2016.
- [13] Sebastian Di Tella. Uncertainty shocks and balance sheet recessions. *Journal of Political Economy*, 125(6):2038–2081, 2017.
- [14] William Diamond, Tim Landvoigt, et al. Credit cycles with market based household leverage. Technical report, University of Pennsylvania, 2019.

- [15] Gauti B Eggertsson and Paul Krugman. Debt, deleveraging, and the liquidity trap: A fisher-minsky-koo approach. *The Quarterly Journal of Economics*, 127(3):1469–1513, 2012.
- [16] Emmanuel Farhi and Iván Werning. A theory of macroprudential policies in the presence of nominal rigidities. *Econometrica*, 84(5):1645–1704, 2016.
- [17] Jack Favilukis, Sydney C Ludvigson, and Stijn Van Nieuwerburgh. The macroeconomic effects of housing wealth, housing finance, and limited risk sharing in general equilibrium. *Journal of Political Economy*, 125(1):140–223, 2017.
- [18] Mark Gertler and Nobuhiro Kiyotaki. Banking, liquidity, and bank runs in an infinite horizon economy. *American Economic Review*, 105(7):2011–43, 2015.
- [19] Mark Gertler, Nobuhiro Kiyotaki, and Andrea Prestipino. A macroeconomic model with financial panics. Technical report, National Bureau of Economic Research, 2017.
- [20] Daniel Greenwald. The mortgage credit channel of macroeconomic transmission. Working paper, MIT, 2018.
- [21] Veronica Guerrieri and Guido Lorenzoni. Credit crises, precautionary savings, and the liquidity trap. *The Quarterly Journal of Economics*, 132(3):1427–1467, 2017.
- [22] Alejandro Justiniano, Giorgio E Primiceri, and Andrea Tambalotti. Household leveraging and deleveraging. *Review of Economic Dynamics*, 18(1):3–20, 2015.
- [23] Greg Kaplan, Kurt Mitman, and Giovanni L Violante. The housing boom and bust: Model meets evidence. Technical report, National Bureau of Economic Research, 2017.
- [24] Anil K Kashyap and Guido Lorenzoni. Borrower and lender resilience. Working paper, Northwestern University, 2019.
- [25] Anton Korinek and Alp Simsek. Liquidity trap and excessive leverage. *American Economic Review*, 106(3):699–738, 2016.
- [26] Arvind Krishnamurthy. Collateral constraints and the amplification mechanism. *Journal of Economic Theory*, 111(2):277–292, 2003.
- [27] Guido Lorenzoni. Inefficient credit booms. *The Review of Economic Studies*, 75(3):809–833, 2008.
- [28] Guido Lorenzoni and Ivan Werning. Slow moving debt crises. Working Paper 19228, National Bureau of Economic Research, July 2013.

- [29] Christina D Romer and David H Romer. Why some times are different: Macroeconomic policy and the aftermath of financial crises. Working Paper 23931, National Bureau of Economic Research, October 2017.
- [30] Edouard Schaal and Mathieu Taschereau-Dumouchel. Aggregate demand and the dynamics of unemployment. 2016.