

Syllabus: Economics 704a – Macroeconomics

Logistics

TuTh 11-12:15 in CAS 226

13 lectures (March 21 to May 2).

We have a lecture instead of a section on April 7, and a section instead of a lecture on April 13.

Instructor:

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Office Hours: MonTu 3:30-5:00

Teaching Assistant:

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Section: Fri 10:10-11:25 in MCS B29

Office Hours: Fri 11:30-1:00 in Room B17

Overview:

This is the second half of the second semester first-year Ph.D. course in macroeconomics. The course focuses on macroeconomic perspectives of labor market frictions and financial market frictions. In the first half, we study labor market frictions and ask: Why is there unemployment? Why does unemployment fluctuate over the business cycle? Is unemployment an efficient outcome? What policies should we implement to deal with labor market friction? What is the consequence of labor market friction on wage distributions? In the second half, we study financial friction and ask: Why do financial crises happen? What is the role of the balance sheet of firms/households/banks? How do disruptions in the financial market transmit to the real economy? What policies should we implement to prevent financial crises?

Requirements:

Grading will be based on problem sets (50%) and the final exam (50%).

Problem sets:

- There will be 4-6 problem sets.
- You are strongly encouraged to work in a group, but each student must hand in their own write-up.
- You are strongly encouraged to write it up as a PDF in LaTeX.

Lecture 1: Unemployment Facts

- Fujita, S., & Ramey, G. (2009). The cyclicity of separation and job finding rates. *International Economic Review*, 50(2), 415-430.
- Shimer, R. (2012). Reassessing the ins and outs of unemployment. *Review of Economic Dynamics*, 15(2), 127-148.
- Petrongolo, B., & Pissarides, C. A. (2001). Looking into the black box: A survey of the matching function. *Journal of Economic literature*, 39(2), 390-431.
- Rogerson, R., Shimer, R., & Wright, R. (2005). Search-theoretic models of the labor market: A survey. *Journal of economic literature*, 43(4), 959-988.

Lecture 2-3: Diamond-Mortensen-Pissarides (DMP) Model

- Pissarides, C. A. (2000). *Equilibrium unemployment theory*. MIT press. Chapter 1
- Shimer, R. (2005). The cyclical behavior of equilibrium unemployment and vacancies. *American economic review*, 95(1), 25-49.
- Hagedorn, M., & Manovskii, I. (2008). The cyclical behavior of equilibrium unemployment and vacancies revisited. *American Economic Review*, 98(4), 1692-1706.
- Chodorow-Reich, G., & Karabarbounis, L. (2016). The cyclicity of the opportunity cost of employment. *Journal of Political Economy*, 124(6), 1563-1618.
- Hall, R. E. (2005). Employment fluctuations with equilibrium wage stickiness. *American economic review*, 95(1), 50-65.
- Kehoe, P. J., Lopez, P., Midrigan, V., & Pastorino, E. (2022). *Asset prices and unemployment fluctuations: a resolution of the unemployment volatility puzzle* (No. w29794). National Bureau of Economic Research.
- Coles, M. G., & Moghaddasi Kelishomi, A. (2018). Do job destruction shocks matter in the theory of unemployment?. *American Economic Journal: Macroeconomics*, 10(3), 118-36.

Lecture 4: When to Accept a Job Offer? Search with Job Heterogeneity

- Ljungqvist, L., & Sargent, T. J. (2018). *Recursive macroeconomic theory*. MIT press. Chapter 6
- Martellini, P., & Menzio, G. (2020). Declining search frictions, unemployment, and growth. *Journal of Political Economy*, 128(12), 4387-4437.
- Ganong, P., Greig, F. E., Noel, P. J., Sullivan, D. M., & Vavra, J. S. (2022). *Spending and Job-Finding Impacts of Expanded Unemployment Benefits: Evidence from Administrative Micro Data* (No. w30315). National Bureau of Economic Research.
- Chodorow-Reich, G., Coglianesi, J., & Karabarbounis, L. (2019). The macro effects of unemployment benefit extensions: a measurement error approach. *The Quarterly Journal of Economics*, 134(1), 227-279.

Lecture 5: Efficiency in DMP Model

- Hosios, A. J. (1990). On the efficiency of matching and related models of search and unemployment. *The Review of Economic Studies*, 57(2), 279-298.
- Acemoglu, D. (2001). Good jobs versus bad jobs. *Journal of labor Economics*, 19(1), 1-21.

Lecture 6: Directed Search Model

- Moen, E. R. (1997). Competitive search equilibrium. *Journal of political Economy*, 105(2), 385-411.
- Wright, R., Kircher, P., Julien, B., & Guerrieri, V. (2021). Directed search and competitive search equilibrium: A guided tour. *Journal of Economic Literature*, 59(1), 90-148.

Lecture 7: Monopsony Models of Frictional Labor Market

- Burdett, K., & Mortensen, D. T. (1998). Wage differentials, employer size, and unemployment. *International Economic Review*, 257-273.
- Engbom, N., & Moser, C. (2022). Earnings inequality and the minimum wage: Evidence from Brazil. *American Economic Review*, 112(12), 3803-47.
- Dustmann, C., Lindner, A., Schönberg, U., Umkehrer, M., & Vom Berge, P. (2022). Reallocation effects of the minimum wage. *The Quarterly Journal of Economics*, 137(1), 267-328.

Lecture 8: Financial Intermediation and the Macroeconomy Facts

- The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2022, Scientific Background: Financial intermediation and the economy, <https://www.nobelprize.org/uploads/2022/10/advanced-economicsciencesprize2022-2.pdf>
- Bernanke, B. S. (1983). Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression. *The American Economic Review*, 73(3), 257-276.
- Chodorow-Reich, G. (2014). The employment effects of credit market disruptions: Firm-level evidence from the 2008–9 financial crisis. *The Quarterly Journal of Economics*, 129(1), 1-59.
- Huber, K. (2018). Disentangling the effects of a banking crisis: Evidence from German firms and counties. *American Economic Review*, 108(3), 868-898.

Lecture 9: Panics

- Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance, and liquidity. *Journal of political economy*, 91(3), 401-419.

Lecture 10-11: Balance Sheet Recession

- Bernanke, B. S., Gertler, M., & Gilchrist, S. (1999). The financial accelerator in a quantitative business cycle framework. *Handbook of macroeconomics*, 1, 1341-1393.
- Kiyotaki, N., & Moore, J. (1997). Credit cycles. *Journal of political economy*, 105(2), 211-248.
- Kiyotaki, N. (1998). Credit and business cycles. *The Japanese Economic Review*, 49(1), 18-35.

Lecture 12: Household Balance Sheet and Aggregate Demand

- Eggertsson, G. B., & Krugman, P. (2012). Debt, deleveraging, and the liquidity trap: A Fisher-Minsky-Koo approach. *The Quarterly Journal of Economics*, 127(3), 1469-1513.
- Guerrieri, V., & Lorenzoni, G. (2017). Credit crises, precautionary savings, and the liquidity trap. *The Quarterly Journal of Economics*, 132(3), 1427-1467.
- Mian, A., & Sufi, A. (2014). What explains the 2007–2009 drop in employment?. *Econometrica*, 82(6), 2197-2223.
- Chodorow-Reich, G., Nenov, P. T., & Simsek, A. (2021). Stock market wealth and the real economy: A local labor market approach. *American Economic Review*, 111(5), 1613-1657.

Lecture 13: Financial Regulation

- Lorenzoni, G. (2008). Inefficient credit booms. *The Review of Economic Studies*, 75(3), 809-833.
- Dávila, E., & Korinek, A. (2018). Pecuniary externalities in economies with financial frictions. *The Review of Economic Studies*, 85(1), 352-395.
- Moore, J. (2013). Pecuniary externality through credit constraints: Two examples without uncertainty. *University of Edinburgh, working paper*.

- Korinek, A., & Simsek, A. (2016). Liquidity trap and excessive leverage. *American Economic Review*, 106(3), 699-738.
- Farhi, E., & Werning, I. (2016). A theory of macroprudential policies in the presence of nominal rigidities. *Econometrica*, 84(5), 1645-1704.