Macroeconomics with Heterogeneous Agents (Econ 882-11)

2nd-year PhD module

Instructor: Andrea Lanteri

Lectures

Part 1: Household heterogeneity

1) Complete vs incomplete markets, the Bewley (1986) economy, how to solve your first heterogeneous agent model

2) Precautionary savings, micro v. GE: the Aiyagari (1994) economy. How to solve for transitions between stationary equilibria (advantages and shortcomings of the method)

Additional material: matching the wealth distribution (Castaneda et al., 2003), credit crunch, interest rates and output (Guerrieri and Lorenzoni, 2015)


Additional material: Non-stochastic simulations (Young, 2010), Explicit aggregation (den Haan and Rendahl, 2010)

Assignment A: Solve Aiyagari (1994), stationary equilibrium and transitional dynamics for unexpected credit “shock”

Part 2: Firm heterogeneity


5) Khan-Thomas (2008): does GE kill all this lumpiness?
Assignment B: Heterogeneity in productivity, investment irreversibility and aggregate TFP: how important are frictions in reallocation?

6 and 7) Presentations of additional papers and potentially discussion of heterogeneous agents and trading in real assets (Lanteri, 2016).

Required readings

1) Ljunqvist and Sargent, Recursive Macroeconomic Theory, Chapters 8, 16, 17 (in the `red’’ edition)
2) Aiyagari (1994), Uninsured Idiosyncratic Risk and Aggregate Savings, QJE
3) Krusell and Smith (1998), Income and Wealth Heterogeneity in the Macroeconomy, JPE
6) Khan and Thomas (2008), Idiosyncratic Shocks and the Role of Nonconvexities in Plant and Aggregate Investment Dynamics, Econometrica

List of papers for critical review/presentation

1) Castaneda et al. (2003), Accounting for the US Earnings and Wealth Inequality, JPE
2) Den Haan and Rendahl (2010), Solving the incomplete markets model with aggregate uncertainty using explicit aggregation, JEDC
3) Guerrieri and Lorenzoni (2015), Credit Crises, Precautionary Savings and the Liquidity Trap
4) Song et al. (2015), Firming Up Inequality
5) Bachmann and Bayer (2014), Investment Dispersion and the Business Cycle, AER
6) Buera and Moll (2015), Aggregate Implications of a Credit Crunch, AEJ Macro
7) Bloom et al. (2014), Really Uncertain Business Cycles
8) Bachmann and Bayer (2013), Wait-and-see Business cycles?