

Topics in Macro-Finance

Institute of New Structural Economics, Peking University
Overseas Exchange Center, Room 359S
May 27-30, 2019

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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 four meetings. Each meeting will last 3 hours including a break of 20 minutes.

Course schedule

- Monday, May 27, 9:00-12:00

- In the first class I will go through a review article I wrote for the *Quarterly Review* of the Federal Reserve Bank of Richmond (see Quadrini (2011)). In this article I develop the basic framework that can be used to illustrate the key mechanisms formalized by several contributions proposed in the literature including the seminal papers by Bernanke and Gertler (1989) and Kiyotaki and Moore (1997).

- Tuesday, May 28, 9:00-12:00

- In the second class I will use the framework introduced in the first meeting to illustrate some recent contributions to the literature. Many of the recent contributions can be seen as extensions of early models. I will reference several papers that have received considerable attention. In this class we will also discuss the role of financial intermediation for macroeconomic dynamics. Typically, models that formalize financial frictions are highly non-linear. This feature makes these models very attractive because

they can generate 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 the models using computational techniques that are quite involved. In this class I will discuss some of the computational methods that can be used for this purpose.

- **Wednesday, May 29, 9:00-12:00**

- The third 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: Mendoza, Quadrini, and Ríos-Rull (2009) and Perri and Quadrini (2018). In the presentation I will describe how these two papers relate to the literature. I will also discuss other important contributions such as Caballero, Farhi, and Gourinchas (2008) and Mendoza (2010). Since some of these models do not allow for perfect aggregation, we have to deal with high dimensional heterogeneity. I will discuss some computational approaches that can be used to solve models with heterogeneous agents.

- **Thursday, May 30, 9:00-12:00**

- The fourth and last class covers 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’. Specific references and readings will be provided during the course.

- **Thursday, May 30, 14:00-16:00**

- **Seminar:** The impact of industrialized countries’ monetary policy on emerging economies.

References

- Bernanke, B., & Gertler, M. (1989). Agency Costs, Net Worth, and Business Fluctuations. *American Economic Review*, 79(1), 14–31.
- Caballero, R. J., Farhi, E., & Gourinchas, P. O. (2008). An Equilibrium Model of Global Imbalances and Low Interest Rates. *American Economic Review*, 98(1), 358–93.
- Kiyotaki, N., & Moore, J. H. (1997). Credit Cycles. *Journal of Political Economy*, 105(2), 211–48.
- Mendoza, E., Quadrini, V., & Ríos-Rull, J. V. (2009). Financial Integration, Financial Development and Global Imbalances. *Journal of Political Economy*, 117(3), 297–323.
- Mendoza, E. (2010). Sudden Stops, Financial Crisis, and Leverage. *American Economic Review*, 100(5), 1941–66.
- Perri, F., & Quadrini, V. (2018). International Recessions. *American Economic Review*, 108(4-5), 935–84.
- Quadrini, V. (2011). Financial Frictions in Macroeconomic Fluctuations. *Economic Quarterly, Federal Reserve Bank of Richmond*, 97(3), 209–54.