Course: Macroeconomic Policy

Faculty: Francesc Obiols

Term: Second

Module: Economic Models

E-mail: francesc.obiols@uab.es

Web page:

Office Hours: Upon request

Description:

In this course we continue developing useful tools and equilibrium theory for modern economic analysis and in particular we study environments in which economic agents (households and firms) are heterogeneous in relevant dimensions. We introduce the model with incomplete insurance markets against idiosyncratic uncertainty, which can be seen as one of the current work-horses in the macro arena, and several of its applications will be reviewed. The book by Ljungqvist and Sargent listed below is a reference that contains part of the materials of the course. In addition, several specific readings will be indicated for each theme. Finally, during the course there will be problem sets to be submitted every week, and a final exam.

Objective:

The goal of the course is to introduce equilibrium models in which agents are heterogeneous in non trivial dimensions, and to adapt the techniques acquired in previous courses to deal with these environments. The interest in these models comes from the fact that they allow us to study the equilibrium effects of a given policy by taking into account its differentiated effects on agents that are heterogeneous in relevant dimensions. The objective, therefore, is to formulate models to perform policy evaluation analysis, specially using quantitative methods.

Outline:

1. Representative consumer theories of inequality. Representative consumer theories. Perfect Aggregation and distributional dynamics. Borrowing constraints and welfare.

2. Idiosyncratic uncertainty. The complete markets case. The incomplete markets case: Perfect Aggregation does not hold. Precautionary saving. Does market incompleteness matter?

3. Fiscal Policy. Optimal capital income taxation with incomplete markets, revisiting Chamley. Optimal taxation: a quantitative evaluation.

4. Frictional labor markets. Search and matching in frictional labor markets. Extensions in the Neoclassical Model of Growth and in the Real Business Cycles model with incomplete markets.

5. Heterogeneous firms: Lucas' span of control model.

References:

Ljungqvist, L., and T. Sargent (2000): *Recursive Macroeconomic Theory*, MIT press.

Grading:

A final exam.