

FINANCIAL ECONOMICS

Spring 2023
Master in Economics
Washington University in St. Louis

Instructor	Julian Kozlowski
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Course description: This course provides an introduction to macro-finance and economic research. We start with the basic macro-finance frameworks and follow up with some topics such as bank runs, financial crisis, and liquidity.

Materials: A textbook reference is Recursive Macroeconomic Theory by Ljungqvist and Sargent (chapter numbers refer to the 4th edition) and Investments by Bodie Kane and Macrus (chapter numbers refer to the 12th edition). Course announcements will be posted on Canvas. All course materials will be posted on Canvas. Additional reading materials (aside from the textbook) will be posted on Canvas.

Grading: The objective of this class is for students to familiarize both with presentations, writing skills, and team-work collaboration. This course will help students that want to continue on economic research as well as those that want to work on the private or public sector.

The course evaluation has three components:

1. 20% of the grade consist on class participation. Hence, attendance and participation is encouraged.
2. 30% of the grade consist on the paper presentation project.
3. 50% of the grade consist of the term paper.

Presentation project: The first week we form groups and assign dates for each group presentation. Each group present a paper. You can pick a paper from the syllabus. You can also propose a

different paper. The presentation relates to topics covered the previous week, so students have at least one full week to study the paper in deep. These presentations will be scattered through the semester. Students have to prepare a 10 minutes presentation as well as a report for the selected paper. You can find resources and details about the paper presentation on Canvas.

Paper project: The first week we form groups to work on the term paper. Each group have to write a research paper. The last class will consist of presentations of this paper. You also have to hand in a written paper on the last class. You can find resources and details about the term paper on Canvas.

Schedule:

- **January 23.** Introduction to Macro-Finance. Macro-Finance trends, the global financial crisis, and the COVID crisis.
 - References: [Farhi and Gourio \(2018\)](#); [Ebsim, Faria-e Castro, and Kozlowski \(2022\)](#).
 - Presentation papers: [Gomme, Ravikumar, and Rupert \(2011\)](#); [Karabarbounis and Neiman \(2014\)](#); [Farhi and Gourio \(2018\)](#); [Kozlowski, Veldkamp, and Venkateswaran \(2020\)](#); [Ebsim, Faria-e Castro, and Kozlowski \(2022\)](#).
- **January 30.** Competitive equilibrium.
 - References: LS Ch. 7.
 - Presentation papers: [Lucas and Prescott \(1971\)](#); [Lucas \(1978\)](#); [Prescott and Mehra \(1980\)](#); [Levhari and Mirman \(1980\)](#); [Marcet and Sargent \(1989\)](#); [Ryoo and Rosen \(2004\)](#).
- **February 6.** Complete Markets.
 - References: LS Ch. 8.
 - Presentation papers: [Negishi \(1960\)](#); [Arrow \(1964\)](#); [Cochrane \(1991\)](#); [Townsend \(1994\)](#); [Constantinides and Duffie \(1996\)](#); [Blume and Easley \(2006\)](#).
- **February 13.** Incomplete Markets.
 - References: LS Ch. 18.
 - Presentation papers: [Buera and Nicolini \(2004\)](#); [Krusell and Smith \(1998\)](#); [Heathcote, Storesletten, and Violante \(2010\)](#); [Krueger, Perri, Pistaferri, and Violante \(2010\)](#); [Kaplan and Violante \(2010\)](#); [Heathcote, Perri, and Violante \(2010\)](#).
- **February 20.** Asset pricing.
 - References: LS Ch 13, 14.
 - Presentation papers: [Fama and French \(2004\)](#); [Brunnermeier \(2009\)](#); [Schaal and Taschereau-Dumouchel \(2022\)](#); [Kozlowski \(2021\)](#); [Martin and Ventura \(2018, 2012\)](#).
- **February 27.** Asset pricing.
 - References: LS Ch 13, 14.

- Presentation papers: [Fama and French \(1992\)](#); [Hansen and Jagannathan \(1991\)](#); [Tallarini Jr \(2000\)](#); [Gabaix \(2012\)](#).
- **March 6.** Bank runs.
 - References: [Diamond and Dybvig \(1983\)](#), [Kurlat's notes](#).
 - Presentation papers: [Wallace et al. \(1996\)](#); [Ennis and Keister \(2009\)](#); [Goldstein and Pauzner \(2005\)](#); [Shin \(2009\)](#); [Dávila and Goldstein \(2021\)](#).
- **March 13:** No classes, spring break.
- **March 20.** Practice class: An introduction to Compustat (by Gaspar).
- **March 27.** Credit market frictions.
 - Modigliani-Miller
 - Costly state verification, [Townsend \(1979\)](#)
 - Supply of liquidity, [Holmström and Tirole \(1998\)](#)
 - References: [Townsend \(1979\)](#); [Holmström and Tirole \(1998\)](#) and [Kurlat's notes](#).
 - Presentation papers: [Bernanke and Gertler \(1990\)](#); [Bernanke, Gertler, and Gilchrist \(1999\)](#); [Kiyotaki and Moore \(1997\)](#); [Lorenzoni \(2008\)](#).
- **April 3.** Information in Macroeconomics and Finance.
 - The market for lemons, [Akerlof \(1970\)](#)
 - Bayesian updating
 - Learning from prices, [Grossman and Stiglitz \(1980\)](#)
 - References: [Veldkamp \(2011\)](#) and [Kurlat's notes](#).
- **April 10.** Search in financial markets.
 - References: [Duffie, Gârleanu, and Pedersen \(2005\)](#); [Kozlowski \(2021\)](#).
- **April 17.** Liquidity in macroeconomics and finance.
 - References: [Ebsim, Faria-e Castro, and Kozlowski \(2022\)](#); [Caramp, Kozlowski, and Teeple \(2022\)](#).
- **April 24.** Student presentations.

References

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