

Suggested topics and references for the seminar:

### **The financial crisis and its macroeconomic repercussions**

#### **Useful overviews:**

Laibson, 2011, lecture on “Asset prices and economic fluctuations”.

Stiglitz, J.E., 2011, Macroeconomics, monetary policy, and the crisis.

Both can be found here:

[http://www.econ.ku.dk/okocg/VM/VM-general/diverse\\_supplerende\\_materiale\\_og\\_links.htm](http://www.econ.ku.dk/okocg/VM/VM-general/diverse_supplerende_materiale_og_links.htm).

**Notation** applied in the references below:

“JEP 2010/4” refers to: *Journal of Economic Perspectives*, vol. 24, no. 4, Fall 2010.

“Adv. Macro homepage” refers to:

[http://www.econ.ku.dk/okocg/VM/VM-general/diverse\\_supplerende\\_materiale\\_og\\_links.htm](http://www.econ.ku.dk/okocg/VM/VM-general/diverse_supplerende_materiale_og_links.htm)

Some of the references below are just introductions/surveys, but *their* list of references may contain important first-hand sources.

#### **Suggested topics**

1. Why does the economy fall to pieces after a financial crisis?

Hall, R., 2010, Why does the economy fall to pieces after a financial crisis? JEP 2010/4.

Hall, R., 2011, The long slump, *AER*, vol. 101 (2), 431-469.

Se also <http://www.stanford.edu/~rehall/2012AEAMeetings.htm> and

[http://www.stanford.edu/~rehall/Selected\\_Publications.html](http://www.stanford.edu/~rehall/Selected_Publications.html)

2. Theory of effective demand failures (the corridor hypothesis).

Leijonhufvud, A., 2009a, Out of the corridor: Keynes and the crisis, *Cambridge Journal of Economics*, vol. 33, 741-757.

Leijonhufvud, A., 2009b, Macroeconomics and the crisis: A personal appraisal. *CEPR Policy Insight* No. 41: <http://www.cepr.org/pubs/PolicyInsights/PI.asp>

3. What is Say's law and what does it mean to reject it?

No good reference here. In fact, I regret I added this issue to the list. The two questions raised do not provide enough stuff for a paper as they can be answered very briefly. So let me do that at our meeting the coming Thursday.

4. New Keynesian models.

A workhorse version, see the proposal by Jeppe Druedahl.

Attempts at extension with:

a) Involuntary unemployment.

Blanchard & Gali, *JMCB*, 2007, and *AEJ Macroeconomics* 2010.

b) Financial intermediation.

Cúrdia, V., and M. Woodford, 2009, Credit Frictions and Optimal Monetary Policy, Working Paper; Gertler, M., and N. Kiyotaki, Chapter 11 in *Handbook of Monetary Economics*, vol. 3A, 2010, is online at the library..

c) Fixed capital investment in a Keynesian context.

Balnachard ??, Kiyotaki ??

Critique of the representative agent DSGE approach:

Pesaran, M.H., and R.P. Smith, 2011, Beyond the DSGE straightjacket, *The Manchester School*, vol. 79, 5-16.

5. Credit frictions, agency costs, and economic fluctuations:
  - a) Bank lending channel, bank runs:  
Bernanke, Gertler, Mishkin.  
D. W. Diamond: Banks and liquidity: A simple exposition of the Diamond-Dybvig model, *Economic Quarterly*, vol. 93 (2), 189-200.
  - b) Balance sheet channel. The Kiyotaki and Moore model. Kiyotaki and Moore, *J. of Political Economy*, 1997.
  - c) Financial regulation after the crisis. Special issue: *Journal of Economic Perspectives*, vol. 25 (1), 2011.
6. The housing market and macroeconomics.  
See Adv. Macro homepage.
7. Theory of asset price bubbles. How to test for bubbles?  
Miller and Stiglitz, 2010, *Economic Journal*, vol. 120 (4), 500-518. Laibson, 2011, lecture on “Asset prices and economic fluctuations”, see Adv. Macro homepage.  
See references in Blanchard, 2009, The state of macro, *Annual Review of Economics*, 1, 209-228, in particular on p. 219.
8. Expectation formation:
  - a) Self-fulfilling expectations.  
Farmer, R. 2010, Animal spirits, persistent unemployment and the belief function. NBER Working Paper No. 16522. See also Farmer’s two new books at Adv. Macro homepage.  
David Laibson, e.g. in Fuster, A., D. Laibson and B. Mendel, Natural expectations and macroeconomic fluctuations, se JEP 2010/4.
  - b) Learning, Taylor rule, and liquidity trap.  
Evans and Honkapohja, 2008, *European Economic Review*, vol. 52, 1438 – 1463.  
<http://pages.uoregon.edu/gevans/>
  - c) Uncertainty vs. risk, animal spirits, Imperfect Knowledge Economics.  
Akerlof & Shiller, 2009, *Animal spirits*, Princeton Univ. Press.
  - d) Rational beliefs. Kurz et al.
9. Leverage and deleverage cycles.  
Fostel and Geanakoplos (AER 2008 no. 4, AER 2012, no. 1), Eggertsson & Krugman, see Adv. Macro homepage.
10. History of financial crises.  
Reinhart and Rogoff, 2010, *This time is different*, Princeton Univ. Press.
11. Wage and price dynamics.
  - a) Wage curve and Phillips curve.  
Blanchard, lecture notes, see Blanchard’s website at MIT.  
Fuhrer and Moore, 1995, Inflation persistence, *QJE*, vol. 110, 127-159.  
R.J. Gordon, 2011, The history of the Phillips curve: Consensus and Bifurcation, *Economica*, vol. 78, 10-50.
  - b) The natural *range* of unemployment.  
R. Farmer, see Adv. Macro homepage. More on the labor market: see Hall under 1 above.
12. Hysteresis in unemployment.  
Acemoglu, Blanchard.  
Lawrence Ball, Hysteresis in unemployment: Old and new evidence, NBER Working Paper No. 14818.
13. Should monetary policy attempt to intervene if a speculative bubble seems underway? If so, how?  
Buiter, W., 2012, The role of central banks in financial stability: Has it changed? CEPR Discussion Paper no. 2012.

- N. Roubini, 2006, Why central banks should burst bubbles, *International Finance*, vol. 9 (1), 87-107.
- A.S. Posen, 2006, Why central banks should not burst bubbles, *International Finance*, vol. 9 (1), 109-124.
14. Liquidity trap and unconventional monetary policy.  
 Del Negro et al., 2011, The great escape? A quantitative evaluation of the Fed's liquidity facilities, Fed. Res. Bank of New York Staff Reports no. 520.  
 Buiter, 2009, see North American J. of Economics and Finance, vol. 20 (3).  
 Gertler and Karadi.
15. Fiscal policy in a liquidity trap: short- and long-run implications.  
 Woodford, M., 2010, Simple analytics of the government expenditure multiplier, *AEJ Macroeconomics*.  
 Christiano, L. et al., 2011, When is the government spending multiplier large? *J. of Political Economy*, vol. 119 (1).  
 Romer, D., and C. Romer, 2010, The macroeconomic effects of tax changes: Estimates based on a new measure of fiscal shocks, *AER*, vol. 100, no. 3, 763-801.  
Romer, C., What do we know about the effects of fiscal policy? Separating evidence from ideology? See Adv. Macro homepage.

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