Financial Markets and the Macroeconomy.

Berlin, Freie Universität, July 2nd - July 11th

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July 1, 2013

Lecture times and locations:

Tue, 2013-07-02	14:00 — 18:00	# 101
Thu, 2013-07-04	12:00 — 16:00	# 101
Tue, 2013-07-09	14:00 — 18:00	# 101
Thu, 2013-07-11	12:00 — 16:00	# 101

The lecturing halls are located at Garystr. 21, 14195 Berlin (Dahlem).

This mini-course investigates the interrelationship between financial markets and macroeconomics, presenting some recent developments in that literature. We start from a log-linearized perspective on asset pricing and macroeconomic dynamics, including Epstein-Zin preferences and large disasters. We discuss the Atkeson-Eisfeldt-Weill measure of aggregate financial distress. Next we turn to DSGE models incorporating financial frictions. Finally, we turn to models which give rise to systemic crises. Code will be distributed and discussed, enabling participants to pursue further quantitative research on some of these topics.

Topics, papers and material:

1. A brief review of stochastic dynamic macroeconomic modeling: log-linear solutions, solution and estimation with Dynare. **Material:** Slides will be distributed that contain more extensive material. Dynare code for a simple stochastic neoclassical growth model will be distributed and discussed.

2. A brief review of risk premia, using a log-linear perspective. A brief review of large disasters. **Paper:** Uhlig, Harald, "Explaining Asset Prices with External Habits and Wage Rigidities in a DSGE Model," AEA Papers and Proceedings, May 2007, 239-243. **Material:** Slides will be distributed that contain more extensive material.

3. Measuring aggregate financial frictions. **Paper:** Atkeson-Eisfeldt-Weill, "Measuring the Financial Soundness of US Firms 1926-2012", draft, UCLA, October 2012. **Material:** Slides.

4. Incorporating banks and financial frictions in DSGE models. **Paper:** Gertler-Kiyotaki, "Financial Intermediation and Credit Policy in Business Cycle Analysis", draft, Princeton University 2010. Final version published in Benjamin M. Friedman & Michael Woodford (ed.), 2010. 'Handbook of Monetary Economics,' Elsevier, edition 1, volume 3, number 3. **Material:** Some additional slides. Code for Gertler-Karadi, "A model of unconventional monetary policy", Journal of Monetary Economics 58 (2011), 17-34. Code for Görtz-Tsoukalas, "News and Financial Intermediation in Aggregate and Sectoral Fluctuations", draft, University of Glasgow, 2012.

5. Models with Systemic Risk. **Papers:** Boissay-Collard-Smets, "Booms and Systemic Banking Crises", draft, European Central Bank, 2012. Caballero-Simsek, "Fire Sales in a Model of Complexity", draft, MIT, 2011. **Material:** Slides for these two papers. Code for Boissay-Collard-Smets.

6. If time permits, we will also discuss models of sovereign default. **Papers:** Roch-Uhlig, "The Dynamics of Sovereign Debt Crises and Bailouts", 2013. **Material:** Slides.