ECON GR6808: Macro-Finance

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Fall 2021

Overview This course introduces students to the theoretical and empirical literature on macro-finance. The course covers financial frictions, equilibrium models of risk and return, and models of the wealth distribution. A particular emphasis is given to continuous time methods as well as micro empirical techniques to test these models.

Grading Your course grade will be based on problem sets (40% of the grade), participation (20% of the grade), and a term paper (40% of the grade), which should be an original research proposal (somewhat) related to the course's topics.

Statement on Academic Integrity Columbia's intellectual community relies on academic integrity and responsibility as the cornerstone of its work. Graduate students are expected to exhibit the highest level of personal and academic honesty as they engage in scholarly discourse and research. In practical terms, you must be responsible for the full and accurate attribution of the ideas of others in all of your research papers and projects; you must be honest when taking your examinations; you must always submit your own work and not that of another student, scholar, or internet source. Graduate students are responsible for knowing and correctly utilizing referencing and bibliographical guidelines. When in doubt, consult your professor. Citation and plagiarism-prevention resources can be found at the GSAS page on Academic Integrity and Responsible Conduct of Research.

Failure to observe these rules of conduct will have serious academic consequences, up to and including dismissal from the university. If a faculty member suspects a breach of academic honesty, appropriate investigative and disciplinary action will be taken following Dean's Discipline procedures.

Statement on Disabilities Accommodations If you have been certified by Disability Services (DS) to receive accommodations, please either bring your accommodation letter from DS to my office hours to confirm your accommodation needs, or ask your liaison in GSAS to consult with me. If you believe that you may have a disability that requires accommodation, please contact Disability Services at 212-854-2388 or disability@columbia.edu.

Presentations Papers with an asterisk (*) are required readings. Papers with a cross ($\dagger$) will be presented by students.

Asset Prices

Week 1: Present Value Relationships

*John Y Campbell. *Financial decisions and markets: a course in asset pricing*. Princeton University Press, 2017 Chapter 5

†Òscar Jordà et al. "The rate of return on everything, 1870–2015". In: *The Quarterly Journal of Economics* 134.3 (2019), pp. 1225–1298

Week 2: Consumption-Based Asset Pricing

*John Y Campbell. *Financial decisions and markets: a course in asset pricing*. Princeton University Press, 2017 Chapter 4 & 6.1, 6.2, 6.3

†Ian WR Martin. "Consumption-based asset pricing with higher cumulants". In: *The Review of Economic Studies* 80.2 (2013), pp. 745–773

Models with Heterogeneous Agents

Week 3 & 4: Optimization in Continuous-Time

*Samuel Karlin and Howard E Taylor. *A second course in stochastic processes*. Elsevier, 1981 Chapter 15

Week 5: Pareto Distributions

*Xavier Gabaix. "Power Laws in Economics and Finance". In: *Annual Review of Economics* 1.1 (2009), pp. 255–294

Matthieu Gomez. "Decomposing the Growth of Top Wealth Shares". Working Paper. 2016

Week 6: Overlapping Generations

*Charles I Jones. "Pareto and Piketty: The macroeconomics of top income and wealth inequality". In: *Journal of Economic Perspectives* 29.1 (2015), pp. 29–46

Benjamin Moll, Lukasz Rachel, and Pascual Restrepo. "Uneven growth: automation's impact on income and wealth inequality". In: *Econometrica* 90.6 (2022), pp. 2645–2683

Week 7: Heterogeneous Portfolios

Matthieu Gomez. "Asset Prices and Wealth Inequality". Working Paper. 2016

†Adrien Auclert. "Monetary policy and the redistribution channel". In: *American Economic Review* (2015)

Week 8 & 9: Idiosyncratic Risk

*Yves Achdou et al. *Income and wealth distribution in macroeconomics: A continuous-time approach.* Tech. rep. Working Paper. 2017

Martin Blomhoff Holm. "Consumption with liquidity constraints: An analytical characterization". In: *Economics Letters* 167 (2018), pp. 40–42

Chong Wang, Neng Wang, and Jinqiang Yang. "Optimal consumption and savings with stochastic income and recursive utility". In: *Journal of Economic Theory* 165 (2016), pp. 292–331

†Mark A Aguiar, Mark Bils, and Corina Boar. *Who are the Hand-to-Mouth?* Tech. rep. National Bureau of Economic Research, 2020

Models with Heterogeneous Firms

Week 10: Firm Investment Problem

Fumio Hayashi. "Tobin's marginal q and average q: A neoclassical interpretation". In: *Econometrica: Journal of the Econometric Society* (1982), pp. 213–224

*Pierre-Olivier Gourinchas. "Notes for Econ202A Investment"

Patrick Bolton, Hui Chen, and Neng Wang. "A unified theory of Tobin's q, corporate investment, financing, and risk management". In: *The journal of Finance* 66.5 (2011), pp. 1545–1578

Week 11: Models with Heterogeneous Firms Dynamics

*Erzo GJ Luttmer. "On the mechanics of firm growth". In: *The Review of Economic Studies* 78.3 (2011), pp. 1042–1068

Erzo GJ Luttmer. "Selection, growth, and the size distribution of firms". In: *The Quarterly Journal of Economics* 122.3 (2007), pp. 1103–1144

Matthieu Gomez and Emilien Gouin-Bonenfant. "A Q Theory of Inequality". Working Paper. 2020