

# Macro-Finance Linkages

## European University Institute

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**Description:** The primary goal of this mini-course is to present the main approaches used in the literature to study the role of the financial sector for macroeconomic dynamics.

### Schedule and lecture plan

- Wednesday, November 13, 15:00-18:00

- In the first class I will go through a recent review article I wrote for the *Quarterly Review* of the Federal Reserve Bank of Richmond (see Quadrini (2011)). In this article I develop a basic framework that can be used to illustrate the key mechanisms of several contributions proposed in the literature including the seminal papers of Bernanke and Gertler (1989) and Kiyotaki and Moore (1997). The same framework can be used to illustrate the most recent contributions to the literature. This is because most of the recent contributions can be seen as extensions of earlier papers. During the review I will reference several papers that have recently received considerable attention.

- Thursday, November 14, 9:00-12:00

- Typically, models that formalize financial frictions are highly non-linear. This feature makes these models very attractive because they can generate significant asymmetries, for example, between crises and expansions. Also, precautionary behavior and volatility play important roles in these models, with significant effects on macroeconomic dynamics. To properly account for the nonlinearities, we need to solve these models using computational

techniques that are quite involved. The primary goal of this lecture is to first present some applications addressing important economic questions that cannot be addressed with linear models. I will then present some nonlinear computational methods that can be used to solve these models.

## References

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- Kiyotaki, N., & Moore, J. H. (1997). Credit Cycles. *Journal of Political Economy*, 105(2), 211–48.
- Mendoza, E., Quadrini, V., & Ríos-Rull, J. V. (2009). Financial Integration, Financial Development and Global Imbalances. *Journal of Political Economy*, 117(3), 297–323.
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