

# Information and Expectations in Macroeconomics

Department of Economics, European University Institute

## Course Syllabus (Spring 2013)

(Updated: 15 April 2013)

### Instructor

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### Course Information

Information and Expectations in Macroeconomics, Advanced Block II 2013 (half-credit course)

Pre-requisites: First-year PhD macro sequence or equivalent

Course location, meeting times and days:

Lecture 1: Thursday, **18 April**, 17:15-19:15

Lecture 2: Thursday, **25 April**, 17:15-19:15

Lecture 3: Thursday, **02 May**, 17:15-19:15

Lecture 4: Thursday, **09 May**, 11:00-13:00

Lecture 5: to be scheduled for week commencing on May 6 (that is two lectures that week)

Course Website: Moodle (to be set up)

## Course Overview

This series of lectures focuses on the role of informational frictions and expectations in macroeconomics, a topic which has attracted a substantial body of research over the last years. We will explore the effects of news and imperfect information on business cycles, their connection with monetary policy and money non-neutrality, the role of higher-order beliefs, and the potential non-desirability of better public information.

## Course Goals and Learning Outcomes

This course aims to expose you to past and ongoing research in the field and equip you with the tools necessary to embark on your own research. By the end of this course you should be able to:

1. Identify main theories in the field and interpret their evolution over time.
2. Classify/compare/juxtapose key concepts/ideas in the field.
3. Criticize recent and current research.
4. (Hopefully) develop your own research question.

## Course Materials

This course draws on the following sources:

1. Slides: Each set of slides will be posted on the course's website right after the end of each lecture. Slides will serve as lecture notes.
2. Papers: They are listed by topic below. Starred papers are the ones I will mainly discuss in lectures.
3. A very useful textbook is Laura L. Veldkamp (2011), *Information Choice in Macroeconomics and Finance*, Princeton University Press

1 copy is available at the VSP library and 2 copies at the main library (link below)

<http://biblio.eui.eu/search~S5?/aveldkamp/aveldkamp/1%2C4%2C19%2CB/frameset&FF=aveldkamp+1aura&6%2C%2C13>)

Current price on Amazon.com \$36.92 (link below)

[http://www.amazon.com/Information-Choice-Macroeconomics-Finance-Veldkamp/dp/0691142203/ref=sr\\_1\\_1?ie=UTF8&qid=1352330345&sr=8-1&keywords=veldkamp](http://www.amazon.com/Information-Choice-Macroeconomics-Finance-Veldkamp/dp/0691142203/ref=sr_1_1?ie=UTF8&qid=1352330345&sr=8-1&keywords=veldkamp))

**Course Assessment:** 1 project

You will need to write a critical overview of one of the topics taught. The more critical and the less descriptive your spirit is, the better. Submission deadline is May 23.

One possibility is to summarize a few papers from one of the topics of this course as listed below. Another possibility is to synthesize papers across topics, having, of course, a unifying idea in mind. You can also pick papers on related topics this course will not cover (e.g., information aggregation in asset markets and the literature following Grossman and Stiglitz, (1980, *American Economic Review*), rational inattention and the literature following Sims (2003, *Journal of Monetary Economics*), optimal policy design, etc.) Another, of course, possibility, perhaps the hardest, is to pick one paper and extend it (or just write something new!). This could also include a paper you might already be working on, in which case, you need to make clear the connection with the course's literature.

You can, in fact, I encourage you to work in groups (you need to let me know in advance though).

### **News and business cycles (2-3 hours)**

1. Beaudry, P. and F. Portier (2004). An Exploration into Pigou's Theory of Cycles. *Journal of Monetary Economics* 51, 1183-1216.
2. Beaudry, P. and F. Portier (2006). Stock prices, News and Economic Fluctuations. *The American Economic Review* 96 (4), 1293-1307.
3. \* Christiano, L., C. Ilut, R. Motto, and M. Rostagno (2007). Monetary Policy and Stock Market Boom-Bust Cycles.
4. \* Christiano, L., C. Ilut, R. Motto, and M. Rostagno (2010). Monetary Policy and Stock Market Booms. Working Paper (Prepared for Macroeconomic Challenges: the Decade Ahead, A Symposium Sponsored by the Federal Reserve Bank of Kansas City Jackson Hole, Wyoming August 26-28, 2010).
5. \* Jaimovich, N. and S. Rebelo (2009). Can News about Future Drive the Business Cycle? *The American Economic Review* 99 (4), 1097-1118.

#### Also:

- Veldkamp (2011), Chapter 9
- Lorenzoni, G. (2011). News and Aggregate Demand Shocks. *Annual Review of Economics* 3, 537-557.

### **Non-neutral monetary policy (3 hours)**

1. \* Lucas, R. E. (1972). Expectations and the Neutrality of Money. *Journal of Economic Theory* 4, 103-124.
2. \* Mankiw, N. G. and R. Reis (2002). Sticky Information vs Sticky Prices: A Proposal to Replace the New-Keynesian Phillips Curve. *The Quarterly Journal of Economics* 117 (4), 1295-1328.
3. \* Woodford, M. (2001). Imperfect Common Knowledge and the Effects of Monetary Policy. NBER Working Paper No. 8673.

#### Also:

- Veldkamp (2011), Chapter 6
- *Background reading:* Velkamp (2011), Chapter 2

### **Imperfect information and business cycles (3-4 hours)**

1. \* Angeletos, G.-M. and J. La'O (2009). Noisy business cycles. NBER Macroeconomics Annual 2009.
2. \* Angeletos, G.-M. and J. La'O (2013). Sentiments. *Econometrica* 81(2). 739-780.
3. Grossman, S. J. and L. Weiss (1982). Heterogeneous Information and the Theory of the Business Cycle. *Journal of Political Economy* 90 (4), 699-727.
4. \* Lorenzoni, G. (2009). A Theory of Demand Shocks. *The American Economic Review* 99 (5), 2050-84.
5. Rousakis, M. (2013). Expectations and Fluctuations: The Role of Monetary Policy. (Working paper)

Also:

- Veldkamp (2011), Chapter 9
- Lorenzoni, G. (2011). News and Aggregate Demand Shocks. *Annual Review of Economics* 3, 537-557.
- *Background reading:* Velkamp (2011), Chapter 2

### **The social value of information (1-2 hours)**

1. Angeletos, G.-M., L. Iovino, and J. La'O (2011). Cycles, Gaps, and the Social Value of Information. MIT and Chicago Booth Working Paper.
2. \* Amador, M. and P.O. Weill (2010), Learning from Prices: Public Communication and Welfare. *Journal of Political Economy* 118(5), 866-907
3. Angeletos, G.-M. and A. Pavan (2007). Efficient Use of Information and Social Value of Information. *Econometrica* 75(4), 1103-1142.
4. \* Morris, S. and H. S. Shin (2002). Social Value of Public Information. *The American Economic Review* 92 (5), 1521-1534.

Also:

- Veldkamp (2011), Chapter 5