Universitat Pompeu Fabra Barcelona

Topics in Macroeconomics V: Financial Markets

2017-2018 Academic Year
Master of Research in Economics, Finance and Management

1. Description of the subject

- Topics in Macroeconomics II
- Total credits: 3 ECTS

Code: 32084
Workload: 75 hours
Term: 2nd

- Type of subject: Optative
- Department of Economics and Business
- Teaching team: Alberto Martin

2. Teaching guide

Introduction

This course explores what we know about the origins and effects of asset bubbles. The first part reviews empirical evidence on asset prices and on the extent to which they follow present-value relations. The second and third parts develop a workhorse model to think about asset bubbles. The fourth part derives applications and policy implications of this workhorse model. The final part, which will be covered if time allows, explores alternative approaches to think about asset bubbles.

Contents

This is the tentative reading list for the course, which will be updated as the course progresses.

I. Some Evidence on Asset Pricing

Leroy, S., "Efficient Capital Markets and Martingales", Journal of Economic Literature, 1989.

Leroy, S., "Rational Exuberance", Journal of Economic Literature, 2004.

Obstfeld, M., and K. Froot, "Intrinsic Bubbles: the Case of Stock Prices", American Economic Review, 1991.

Gurkaynak, R., "Econometric Tests of Asset Price Bubbles: Taking Stock", Journal of Economic Surveys, 2008.

Brunnermeier, M., and M. Oehmke. "Bubbles, Financial Crises, and Systemic Risk", Handbook of the Economics of Finance, 2013.

II. Rational Bubbles: "Traditional" Models

Tirole, J., "Asset Bubbles and Overlapping Generations." Econometrica, 1985.

Abel, A., G. Maknkiw, L. Summers, and R. Zeckhauser, "Assessing Dynamic Efficiency: Theory and Evidence", The Review of Economic Studies, 1989.

Geerolf, F., "Reassessing Dynamic Efficiency", UCLA working paper, 2013.

Rhee, C, "Dynamic Inefficiency in an Economy with Land", Review of Economic Studies, 1991.

Grossman, G., and N. Yanagawa, "Asset Bubbles and Endogenous Growth", Journal of Monetary Economics, 1993.

Olivier, J., “Growth Enhancing Bubbles”, International Economic Review, 2000.

Carvalho, V., A. Martin, and J. Ventura, “Understanding Bubbly Episodes”, American Economic Review, 2012.

Jordà, O., M. Schularick and A. Taylor, “Leveraged Bubbles”, forthcoming, Journal of Monetary Economics, forthcoming.

III. Rational Bubbles: “New” Models

Caballero, R. and A. Krishnamurthy, “Bubbles and Capital Flow Volatility: Causes and Risk Management”, Journal of Monetary Economics 2006.

Martin, A. and J. Ventura, “Theoretical Notes on Bubbles and the Current Crisis”, IMF Economic Review, 2011.

Martin, A. and J. Ventura, "Economic Growth with Bubbles", American Economic Review, 2012.

Farhi, E. and J. Tirole (2011), "Bubbly Liquidity", Review of Economic Studies 79, 678-706.

Ventura, J., “Bubbles and Capital Flows”, Journal of Economic Theory, 2011.

IV. Macroeconomic Applications and Policy

Asriyan, V., Martin, A., and L. Laeven, “Collateral Booms and Information Depletion”, CREI working paper

Asriyan, V., Fornaro, L., Martin, A., and J. Ventura, “Monetary Policy for a Bubbly World”, CREI working paper, 2016.

Gali, J., “Monetary Policy and Rational Asset Price Bubbles”, American Economic Review, 2014.

Gali, J., and L. Gambetti, “The Effects of Monetary Policy on Stock Market Bubbles: Some Evidence”, American Economic Journal: Macroeconomics, 2015

Hiraona, T., Inabab M. and Yanagawa, N., “Asset Bubbles and Bailouts”, Journal of Monetary Economics, 2015.

Martin, A., Moral-Benito, E., and T. Schmitz, The Financial Transmission of Sectoral Shocks: Evidence from the Spanish Housing Bubble, CREI working paper, 2017.

Martin, A. and J. Ventura, "Managing Credit Bubbles", Journal of the European Economic Association, 2016.

Miao, J., Wang, P., and J. Zhou, "Asset Bubbles, Collateral, and Policy Analysis", Journal of Monetary Economics, 2016.

V. Alternative Approaches

DeLong, B., A. Shleifer, L. Summers and R. Waldman, "Noise Trader Risk in Financial Markets", Journal of Political Economy, 1990.

Abreu, D. and Brunnermeier, "Bubbles and Crashes", Econometrica, 2003.

Adam, K., A. Marcet and J. Nicolini, "Stock Market Volatility and Learning", Journal of Finance, forthcoming.

Teaching methodology

Students are expected to read required papers, which will be analyzed in detail and discussed in class.

Assessment and Grading System

The grade will be based on the student´s performance in the final exam.