

# Advanced Topics in Macro: Financial Frictions

Econ 8200

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MW 1:45-3:15 pm  
PCPE 510

**Aim:** The aim and manner of the course will depend upon the composition of the students taking it or sitting in. If the majority are second-year students I will orient the course more towards standard lectures. While if they are advance graduate students then I will orientate the course more around presenting interesting recent papers, discussing research ideas and presenting preliminary work. In any case the course will feature some of both.

**The following is preliminary and based upon last year's version.**

**Coverage:** This course studies the role that frictions, particularly financial frictions, play in resource allocation. I am going to suggest some material to cover, based on topics I am currently or have recently worked on. But I am open to your suggestions as well.

Recently, I have been working on:

- i Sovereign Default- e.g. Aguiar, Mark, et al. "Self-fulfilling debt crises, revisited." *Journal of Political Economy* (2022),
- ii Sovereign Debt Auctions - e.g. Cole, Harold, Daniel Neuhann, and Guillermo Ordonez. "Asymmetric Information and Sovereign Debt: Theory Meets Mexican Data." *Journal of Political Economy* (2022), or Cole, Harold L., Daniel Neuhann, and Guillermo Ordonez. *Information Spillovers and Sovereign Debt: Theory Meets the Eurozone Crisis*, forthcoming *ReStud*.
- iii Computational models of asset prices and the macroeconomy - e.g. Azinovic, Marlon, Harold L. Cole, and Felix Kubler. "Asset Pricing in a Low Rate Environment." *Swiss Finance Institute Research Paper* 23-31 (2023)., and Chien, YiLi, Harold Cole, and Hanno Lustig. "A multiplier approach to understanding the macro implications of household finance." *The Review of Economic Studies* (2011),
- iv Sustaining cooperative arrangements when the deviating coalitions have symmetric contracting opportunities; e.g. Cole, Harold L., et al. "Trust in Risk Sharing: A Double-Edged Sword." forthcoming *ReStud*.
- v Information frictions and financial markets - e.g. Cole, Harold, and Thomas F. Cooley. "Information acquisition and rating agencies." forthcoming *RED*.

**Textbook:** The main textbook is Ljungqvist and Sargent, *Recursive Macroeconomic Theory*. But this is just for background reading, and I will also suggest some other readings below.

## Tentative Syllabus

### 1. Preferences - review several preference models which are heavily used

- Backus, David K., Bryan R. Routledge, and Stanley E. Zin. "Exotic preferences for macroeconomists." NBER Macroeconomics Annual 19 (2004): 319-390.

### 2. Asset Pricing - cover essentials

- Cochrane *Asset Pricing*
- Guio - rare disasters
- Bansal-Yaron - Long Run Risks
- Cambell-Cochrane - habits

### 3. Incomplete Market Models + Default

- Sovereign debt with default - additional readings Aguiar and Amador *Sovereign Debt: A Review*
- **Arellano - sort out code in [https://julia.quantecon.org/multi\\_agent\\_models/arellano.ht](https://julia.quantecon.org/multi_agent_models/arellano.ht)**
- Aguiar, Chatterjee, Cole and Stangebye
- Morelli, Juan M., Pablo Ottonello, and Diego J. Perez. "Global banks and systemic debt crises." *Econometrica* 90.2 (2022): 749-798.
- World Financial Cycles, Bai et al

### 4. Models with Private Information

- Grossman-Stiglitz
- **Cole-Cooley Model** of signal buying and credit rating agencies
- Auction models: Cole, Neuhan, and Ordonez

### 5. Limited Commitment Models

- Standard Model
- Kehoe-Levine Eq. and Alvarez-Jermann decentralization
- Hellwig-Lorenzoni
- International RBC with limited commitment
- Group deviations - Cole, Krueger, Mailath and Park.

### 6. Asset trading technologies and the macroeconomy

- Optimal Taxation w/out State Contingent Debt - AMSS
- Chien-Cole-Lustig Model

7. Using ML for asset pricing models

- ML examples
- Azinovic-Cole-Kubler