Advanced Macroeconomics Course:
Recursive and Self-Confirming Equilibrium

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This is a course for second year and more advanced researchers or post-docs in economics. The 10+1 weeks will cover four topics. First, we will review recursive competitive equilibrium and dynamic economics with incomplete insurance or credit. Second, we will go in some detail into “Recursive Contract” theory and a few of its applications; in particular, we will focus on limited enforcement and debt in competitive environments. Third, we will relax the assumption of ‘rational expectations’ to study macro-models of learning; in particular, self-enforcing equilibrium and - if time allows after we discuss the fourth topic - we will briefly cover social learning and distorted beliefs. Fourth, we will use these different theories to take a fresh look to current macroeconomic models of ‘financial crisis and depressions.’

All students are expected to actively participate and, possibly, give a short presentation of one paper (from the reading list or related). For students taking the course for credit, this will be based on a take-home mid-term exercise (the last week of February, in which there is no class), a final exercise and - on a voluntary basis - a term paper.

* The 4th session will take place February 12th (instead of 13th) and the last March 24th (instead of 27th); all at the same time and place.
Syllabus

1. From Arrow-Debreu Equilibrium to Recursive Equilibrium (& the Mapping from Perceived to Realized Law of Motions)


2. Incomplete Insurance and Credit (Bewley economies)


3. Recursive Contracts: The theory


Marcet, Albert and Ramon Marimon. 2009. “Recursive Contracts.” EUI.


4. **Recursive Contracts: Risk Sharing and Social Insurance**


5. **Self-enforcement, Default and Competition**


Lorenzoni, Guido. 2007. “Inefficient Credit Booms.” Department of Economics, MIT.

Marimon, Ramon and Vincenzo Quadrini. 2008. “Competition, human capital and income inequality with limited commitment”

Corbae, Dean, and Victor Rios-Rull. 2008. “Credit Scoring and the Competitive Pricing of Default Risk”


7. Economic Depressions beyond RBCs


8. Beliefs, Asset Prices and Depressions


Adam, Klaus, Albert Marcet, and Juan Pablo Nicolini. 2009. “Internal Rationality and Asset Pricing,” IAE-UAB.


9. Social learning and distorted beliefs


