

Stockholm Doctoral Program in Economics 2016
Behavioural Macroeconomics

Preliminary Syllabus

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Aim of the course:

This course wants to introduce the students to some key concepts of behavioural economics and their application to Macroeconomics.

Course Website: www.mondo.su.se

Course Organisation and Format: The course will start with an introduction in lecture format. The rest of the course will be based on papers that students are expected to read and present. Specifically, all students will present a paper in depth, and be called upon randomly at the beginning of each session to give a short summary and evaluation of the papers.

Office hours: After the lecture or on appointment by email.

Readings A '★' marks readings that may be presented in class.

Assessment: Students will be assessed on the basis of their presentations (30 percent), their participation in the discussions in class (20 percent) and a term project (50 percent). For the latter, students should send a one-page research proposal by Dec 15.

General Reading

1. Rabin, M. (2013). Incorporating limited rationality into economics. *Journal of Economic Literature*, 51(2):528–543
2. George A. Akerlof, Behavioral Macroeconomics and Macroeconomic Models, Nobel Prize Lecture 2002
3. Janet Yellen on “Behavioural Economics and Monetary Policy”, 2007.

4. Ian McDonald's "Behavioral Macroeconomics" selection of articles

Other Courses

1. SU PhD: Behavioural Economics I and II
2. SU PhD: Information, Learning, and Expectations in Macroeconomics
3. Mainz University: <http://www.macro.economics.uni-mainz.de/918.php>

Preliminary Reading List

1. Introduction and Methods

- Evans, G. W. and Honkapohja, S. (2012). *Learning and expectations in macroeconomics*. Princeton University Press
- Hansen, L. P. and Sargent, T. J. (2001). Robust control and model uncertainty. *The American Economic Review*, 91(2):60–66
- Sims, C. A. (2003). Implications of rational inattention. *Journal of Monetary Economics*, 50(3):665–690
- Laibson, D. (1997). Golden eggs and hyperbolic discounting. *The Quarterly Journal of Economics*, pages 443–477
- Gul, F. and Pesendorfer, W. (2001). Temptation and self-control. *Econometrica*, 69(6):1403–1435
- Gul, F. and Pesendorfer, W. (2004). Self-control and the theory of consumption. *Econometrica*, 72(1):119–158
- Machina, M. J. and Siniscalchi, M. (2014). Ambiguity and ambiguity aversion. *Handbook of the Economics of Risk and Uncertainty*, 1:729–807
- Köszegi, B. and Rabin, M. (2006). A model of reference-dependent preferences. *The Quarterly Journal of Economics*, pages 1133–1165
- Köszegi, B. and Rabin, M. (2007). Reference-dependent risk attitudes. *The American Economic Review*, 97(4):1047–1073
- Köszegi, B. and Rabin, M. (2009). Reference-dependent consumption plans. *The American Economic Review*, 99(3):909–936
- Kahneman, D. and Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the econometric society*, pages 263–291
- Abel, A. B. (1990). Asset prices under habit formation and catching up with the joneses. *The American Economic Review*, 80(2):38–42
- Gali, J. (1994). Keeping up with the joneses: Consumption externalities, portfolio choice, and asset prices. *Journal of Money, Credit and Banking*, 26(1):1–8

2. Learning and expectation formation (Nov 15, choose 2 papers)

- ★ Cogley, T. and Sargent, T. J. (2008). The market price of risk and the equity premium: A legacy of the great depression? *Journal of Monetary Economics*, 55(3):454–476
- ★
- ★ Kozlowski, J., Veldkamp, L., and Venkateswaran, V. (2015). The tail that wags the economy: Belief-driven business cycles and persistent stagnation. Technical report, National Bureau of Economic Research
- ★ Malmendier, U. and Nagel, S. (2016). Learning from inflation experiences. *The Quarterly Journal of Economics*, 131(1):53–87
- Guvenen, F. (2007). Learning your earning: Are labor income shocks really very persistent? *The American economic review*, 97(3):687–712
- Cogley, T. and Sargent, T. J. (2005). The conquest of US inflation: Learning and robustness to model uncertainty. *Review of Economic Dynamics*, 8(2):528–563
- ★ Adam, K., Marcet, A., and Nicolini, J. P. (2016). Stock market volatility and learning. *The Journal of Finance*, 71(1):33–82
- Sargent, T., Williams, N., and Zha, T. (2006). Shocks and government beliefs: The rise and fall of american inflation. *The American Economic Review*, 96(4):1193–1224
- Sims, C. A. (2001). Pitfalls of a minimax approach to model uncertainty. *The American Economic Review*, 91(2):51–54

3. Consumption, saving and portfolio choice (Nov 22, choose 2 papers)

- ★ Laibson, D., Repetto, A., and Tobacman, J. (2007). Estimating discount functions with consumption choices over the lifecycle. Technical report, National Bureau of Economic Research
- ★ Nakajima, M. (2015). Assessing bankruptcy reform in a model with temptation and equilibrium default
- ★ Pagel, M. (2016). A news-utility theory for inattention and delegation in portfolio choice. Technical report, working paper
- ★ Gomes, F. and Michaelides, A. (2003). Portfolio choice with internal habit formation: A life-cycle model with uninsurable labor income risk. *Review of Economic Dynamics*, 6(4):729–766

4. Price and wage formation, unemployment (Nov 29, choose 2 papers)

- Akerlof, G. A. and Yellen, J. L. (1988). Fairness and unemployment. *The American Economic Review*, 78(2):44–49

- ★ DellaVigna, S. and Paserman, M. D. (2005). Job search and impatience. *Journal of Labor Economics*, 23(3):527–588
- ★ Paserman, M. D. (2008). Job search and hyperbolic discounting: Structural estimation and policy evaluation. *The Economic Journal*, 118(531):1418–1452
- ★ Matjka, F. (2015). Rigid pricing and rationally inattentive consumer. *Journal of Economic Theory*, 158(PB):656–678
- ★ Matjka, F. (2016). Rationally Inattentive Seller: Sales and Discrete Pricing. *Review of Economic Studies*, 83(3):1125–1155
- ★ Ravn, M., Schmitt-Grohé, S., and Uribe, M. (2006). Deep habits. *The Review of Economic Studies*, 73(1):195–218

5. **Business cycles** (Dec 6, choose 2 papers)

- Farmer, R. E. and Guo, J.-T. (1994). Real business cycles and the animal spirits hypothesis. *Journal of Economic Theory*, 63(1):42–72
- Howitt, P. and McAfee, R. P. (1992). Animal spirits. *The American Economic Review*, pages 493–507
- ★ Ilut, C. L. and Schneider, M. (2014). Ambiguous business cycles. *The American Economic Review*, 104(8):2368–2399
- ★ Maćkowiak, B. and Wiederholt, M. (2015). Business cycle dynamics under rational inattention. *The Review of Economic Studies*, page rdv027
- ★ Reis, R. (2006). Inattentive consumers. *Journal of monetary Economics*, 53(8):1761–1800

6. **Asset prices** (Dec 13, choose 2 papers)

- ★ Benartzi, S. and Thaler, R. H. (1995). Myopic loss aversion and the equity premium puzzle. *The Quarterly Journal of Economics*, 110(1):73–92
- ★ Barberis, N., Huang, M., Santos, T., et al. (2001). Prospect theory and asset prices. *The Quarterly Journal of Economics*, 116(1):1–53
- Piazzesi, M., Schneider, M., et al. (2009). *Inflation and the price of real assets*. Citeseer
- DeJong, D. N. and Ripoll, M. (2007). Do self-control preferences help explain the puzzling behavior of asset prices? *Journal of Monetary Economics*, 54(4):1035–1050
- ★ Campbell, J. Y. and Cochrane, J. H. (1999). By force of habit: A consumption-based explanation of aggregate stock market behavior. *The Journal of Political Economy*, 107(2):205–251

7. **Sparcity-based model of bounded rationality** (tbd)

- Gabaix, X. (2014). A sparsity-based model of bounded rationality. *The Quarterly Journal of Economics*, 1661:1710
- Gabaix, X. (2016a). Behavioral macroeconomics via sparse dynamic programming. Technical report, National Bureau of Economic Research
- ★ Gabaix, X. (2016b). A behavioral new keynesian model. *preliminary New York University working paper*

8. Agent based modeling (tbd)

- Brock, W. A. and Hommes, C. H. (1997). A rational route to randomness. *Econometrica: Journal of the Econometric Society*, pages 1059–1095
- Brock, W. A. and Hommes, C. H. (1998). Heterogeneous beliefs and routes to chaos in a simple asset pricing model. *Journal of Economic dynamics and Control*, 22(8):1235–1274
- ★ Anufriev, M., Assenza, T., Hommes, C., and Massaro, D. (2013). Interest rate rules and macroeconomic stability under heterogeneous expectations. *Macroeconomic Dynamics*, 17(08):1574–1604
- Tesfatsion, L. (2006). Agent-Based Computational Economics: A Constructive Approach to Economic Theory. In Tesfatsion, L. and Judd, K. L., editors, *Handbook of Computational Economics*, volume 2 of *Handbook of Computational Economics*, chapter 16, pages 831–880. Elsevier

9. Policy with behavioural agents (tbd)

- Farhi, E. and Gabaix, X. (2015). Optimal taxation with behavioral agents. *NBER Working Paper Series*, page 21524
- Sims, C. A. (2003). Implications of rational inattention. *Journal of monetary Economics*, 50(3):665–690
- ★ Farhi / Werning (2016): Monetary Policy, Bounded Rationality and Incomplete Markets
- ★ Krusell, P., Kuruşçu, B., and Smith, A. A. (2010b). Temptation and taxation. *Econometrica*, 78(6):2063–2084
- Joint with: Krusell, P., Kuruşçu, B., and Smith, A. A. (2010a). How much can taxation alleviate temptation and self-control problems? *Available at SSRN 1675961*