

Reading Group on
Financial Frictions in Macroeconomic Models
(Domenico Delli Gatti)

In this RG we will present and discuss the main macroeconomic models with financial frictions, i.e. financial market “imperfections” – such as asymmetric information – which generate an amplification mechanism of macroeconomic shock (financial accelerator).

The reading group will be organized in lectures and presentations of scientific papers on the part of the students. In the lectures, I will provide an overview of the literature and discuss in detail few seminal papers.

The evaluation of the students’ performance will be carried out by grading (i) the presentation of a paper and (ii) a referee report on the same paper. Papers can be items on the reading list or papers proposed by the student.

At the end of the course students will acquire knowledge of a wide range of macroeconomic models with financial frictions and methodologies to explore their properties.

Reading list

For an encompassing survey of the issues dealt with in this literature, see.

- Brunnermeier, Markus K, Thomas Eisenbach, and Yuliy Sannikov. “Macroeconomics with Financial Frictions: A Survey”. *Advances in Economics and Econometrics*, Tenth World Congress of the Econometric Society. New York: Cambridge University Press, 2013 (freely downloadable).

There is a long bibliography at the end of Brunnermeier’s survey. The seminal paper for the NK-DSGE macro-finance literature is

- Bernanke, Ben, Mark Gertler and Simon Gilchrist. “The Financial Accelerator in a Quantitative Business Cycle Framework”, in Taylor, John and Michael. Woodford, eds., *Handbook of Macroeconomics*, Elsevier, 1999.

Three very important and seminal papers in the financial frictions literature are.

- M. Iacoviello, House Prices, Borrowing Constraints, and Monetary Policy in the Business Cycle, *AER*, 2005
- Gertler, Mark and Nobuhiro Kiyotaki (2010): “Financial Intermediation and Credit Policy in Business Cycle Analysis” in Friedman, Benjamin M., and Michael. Woodford, eds., *Handbook of Monetary Economics*, Elsevier.
- N. Kiyotaki and J. Moore, Credit Cycles, *JPE*, 1997.

I would like also to show some results in the agent-based macroeconomic literature with financial frictions. The reference paper is

- Dawid, H. and Delli Gatti, D. (2018). Chapter 2 - Agent-based macroeconomics. In Hommes, C. and LeBaron, B., editors, *Handbook of Computational Economics*, volume 4, pages 63-156. Elsevier