

**UNIVERSITY OF TORONTO  
DEPARTMENT OF ECONOMICS**

**ECO2031H1, Winter 2013**

### **Course Information**

Instructor: Ronald Wolthoff  
E-mail: ronald.wolthoff@utoronto.ca  
Office hours: Thu 15:00 – 16:00, GE 214 (or by appointment)  
Class: Tue 9.10 – 11.00 (GE100), Thu 9.10 – 11.00 (GE100)  
TA: Chaoran Chen (chaoran.chen@mail.utoronto.ca)

### **Description**

This course will cover models of decentralized trade in markets with information frictions.

### **Evaluation**

Your grade will be based on two homework assignments (10% each) and an exam (80%). The solution to each assignment will be discussed by the TA in a tutorial. Late submissions will therefore not be accepted. If acceptable reasons (such as medical ones) prevent you from handing in an assignment before or on the due date, the weight for that assignment will be re-assigned to the final exam. You need to contact me and provide a justification within a week of the deadline of the assignment.

### **Tentative Course Outline** (subject to change)

Class dates: February, 26 and 28; March, 5, 7, 12, 14, 19, 21, 26, and 28; April 2, and 4.  
Exam: TBA

The class will cover a selection of the following topics

- Background Material: Poisson processes; (continuous-time) Bellman equations; HP filter.
- Efficiency Wages: Chapter 9.1-9.4 of Romer, Shapiro and Stiglitz (1984).
- Labor Market Search Models: Lucas and Prescott (1974), Pissarides (1985), Mortensen and Pissarides (1994), Burdett and Mortensen (1998), Chapter 1 and 2 of Pissarides (2000).
- Efficiency: Hosios (1990), Moen (1997).
- Business Cycles / Unemployment-Volatility Puzzle: Shimer (2005), Hagedorn and Manovskii (2008), Menzio and Shi (2011).
- Asset Markets: Guerrieri et al. (2010), Guerrieri and Shimer (2012).

## References

- Burdett, K. and Mortensen, D. T. (1998). Wage differentials, employer size, and unemployment. *International Economic Review*, 39(2):257–273.
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- Guerrieri, V., Shimer, R., and Wright, R. (2010). Adverse selection in competitive search equilibrium. *Econometrica*, 78(6):1823–1862. mimeo.
- Hagedorn, M. and Manovskii, I. (2008). The cyclical behavior of equilibrium unemployment and vacancies revisited. *American Economic Review*, 98:1692–1706.
- Hosios, A. K. (1990). On the efficiency of matching and related models of search and unemployment. *Review of Economic Studies*, 57:279–298.
- Lucas, R. E. and Prescott, E. C. (1974). Equilibrium search and unemployment. *Journal of Economic Theory*, 7(2):188–209.
- Menzio, G. and Shi, S. (2011). Efficient search on the job and the business cycle. *Journal of Political Economy*, 119:468–510.
- Moen, E. R. (1997). Competitive search equilibrium. *Journal of Political Economy*, 105:385–411.
- Mortensen, D. T. and Pissarides, C. A. (1994). Job creation and job destruction in the theory of unemployment. *Review of Economic Studies*, 61:397–415.
- Pissarides, C. A. (1985). Short-run equilibrium dynamics of unemployment, vacancies and real wages. *American Economic Review*, 75:676–690.
- Pissarides, C. A. (2000). *Equilibrium Unemployment Theory*. Oxford University Press.
- Shapiro, C. and Stiglitz, J. E. (1984). Equilibrium unemployment as a worker discipline device. *American Economic Review*, 74(3):433–444.
- Shimer, R. (2005). The cyclical behavior of equilibrium unemployment and vacancies. *American Economic Review*, 95(1):25–49.